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Appraisal Manuals

Residential Property

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Speculation In Suburban Lands

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THE JOURNAL OF THE
AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS
of the National Association of Real Estate Boards

Volume II. OCTOBER, 1933 Number 1

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Published quarterly by the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards at 59 East Van Buren Street, Chicago, Ill.

Entered as second class matter January 17, 1933, at the post office at Chicago, Illinois, under the act of March 3, 1879.

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Subscription Rates: $5.00 a year; $1.25 a copy. Remittances may be made by personal checks, drafts, post office or express money orders, payable to the National Association of Real Estate Boards, Chicago, Illinois.

Printed in the United States of America.

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STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF CONGRESS OF AUGUST 24, 1912,

Of The Journal of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards, published Quarterly at Chicago, Illinois, for October 1, 1933.

State of Illinois, } ss.
County of Cook. }

Before me, a Notary Public in and for the State and county aforesaid, personally appeared Harry Grant Atkinson, who, having been duly sworn according to law, deposes and says that he is the Business Manager of the Journal of the American Institute of Real Estate Appraisers and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation) etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 12, 1912, embodied in section 411, Postal Laws and Regulations, printed on the reverse of this form, to wit:

1. That the names and addresses of the publisher, editor, managing editor, and business managers are: Publisher, American Institute of Real Estate Appraisers, 59 E. Van Buren St., Chicago, Ill.; Editor, Mark Levy, 7 S. Dearborn St., Chicago, Ill.; Managing Editor, Harry Grant Atkinson, 59 E. Van Buren St., Chicago, Ill.; Business Manager, Harry Grant Atkinson, 59 E. Van Buren St., Chicago, Ill.

2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one per cent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given.)

American Institute of Real Estate Appraisers, (a non-profit organization), 59 E. Van Buren St., Chicago, Ill.; Philip W. Kniskern, President, New York, New York; Joseph B. Hall, Vice President, Cincinnati, Ohio.

3. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are: (If there are none, so state.) None.

4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has an interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

HARRY GRANT ATKINSON.

Sworn to and subscribed before me this 26th day of September, 1933.

ANTON O. LANDES, Notary Public.
(My commission expires April 25th, 1934.)

Valuation Principles As Applied To Residential Property

By ARTHUR J. MERTZKE
Economist, Federal Home Loan Bank Board

THE greatest need of all home owners today is not emergency financing, urgent and vital as we know this is, but rather the restoration of a fair, sound basis of residential values, because this is the main essential to a recovery of normal market activity in residential property. Without the restoration of a healthy market for homes, the vast machinery, both public and private, that has been devised to alleviate and improve conditions in the home financing field will fall short of its main objective, and the eradication of distress among home owners will be needlessly delayed. While the most urgent need of home owners who are threatened with immediate foreclosure is some effective means of enabling them to carry their mortgage indebtedness, it is equally important that all home financing agencies employ every means at their command to reconstruct and rebuild faith in the soundness and stability of residential property values. With the revival of the residential market based upon sound and fair values, the acute home financing crisis will disappear; without a healthy market the most liberal relief measures will utterly fail. But the responsibility for the accomplishment of this vital objective rests primarily upon the appraiser.

Values Veiled in Fog

At the present time the current market price of every parcel of real estate in the United States is far below the trend of real estate values for the past two decades. This is true, however, because the market for real estate is dormant and, therefore, if a certain property *must* be sold at once, it must be sold for a low price. It does not mean, however, that the long-time value of real estate is correctly reflected by these prices, or can be properly measured by means of present day selling prices. Before we examine the valuation principles underlying the appraisal of residential property, a digression into the causes of the dormancy of the real estate market will be helpful.

Activity in real estate is always very sensitive to the general business outlook. As a result there are three clearly distinguishable types of market activity in real estate. The first of these we may, for want of a better expression, term the normal or usual real estate market in which properties are bought and sold in accordance with the needs or convenience of individual buyers and sellers. Buying and selling is steady, prices are firm, and the market is healthy and dependable. The second type of market is characterized by speculative or boom activity. Buyers are active, turnover is rapid, and selling prices climb quickly to higher and higher levels. Such a market is unstable and generally terminates in a collapse followed by an indefinite period of stagnation. The third type of market is that prevailing during a period of deflation and depression. It would be more proper to describe such a period as the absence of a market because in reality no sales of a normal kind take place in such times, for the reason that owners who have properties to sell, prefer to hold them in the hope of getting better prices, and prospective buyers hold off purchases thinking they too will gain by waiting

for still lower prices. The result is that normal market activity ceases just as plant life becomes dormant in the chilly winds of fall, and the only transfers that take place are such as are forced through foreclosure or surrender. Such transactions are, properly speaking, not sales at all because the essentials of a free and voluntary transaction do not exist, and accordingly the prices involved in such transactions cannot serve as a yard-stick of property values.

It is only under the first type of market that selling prices approximate true values. In boom times, prices greatly exceed stable, long-term values; and in depression, on the other hand, there are few if any bona fide sales, and hence no real market prices to serve as a guide in estimating true values. As a result the average man can no more discern real property values in a period of depression than he can see the sky-line of a city in a fog.

Popular Opinions vs. Appraisals

Unable to distinguish between prices and values, the popular attitude toward real estate tends to go from one extreme to the other. Unfortunately appraisers have too often fallen into the same error, only to demonstrate again and again the consequences that must follow when the blind undertake to lead the blind. The easy way is to follow the crowd; and in boom times, the appraiser who takes his stand upon his own convictions and refuses to follow, is certain to find himself unpopular. But in a period of depression the true appraiser has the more pleasant task of seeing beyond the illusions of the moment that blind the multitude and pointing out the vital elements in real estate values which emerge unharmed from every period of depression. It is in times of adversity that we should look to the appraiser to dispel popular fear of the future by a vigorous assertion of his conviction that "things are not what they seem".

There is, therefore, a two-fold significance in every appraisal made today; namely, first to determine the value of the specific property that is being appraised and second, its influence in establishing a sound standard of market values for *all* properties. While only a small percentage of all homes are appraised for loan or other purposes the market values of all homes are determined and tend to be fixed by those which do play a part in a sale or financing transaction. To undervalue one house in a block by 5, 10, or 20 per cent tends, therefore, to pull down the values imputed to all the others in the same ratio.

For several years a widely published statement by the author of the present article, that, "A suitably located residential property is worth what it will bring on the open market, no more and no less"* has gone unchallenged. The forbearance of those who knew that this naive generalization could be true only in a relative sense, permits him now to act as his own critic.

In ordinary times this rule appears to be sound because it approximates the every-day experience of those engaged in buying, selling, and financing homes; but its meaninglessness becomes apparent when it is tested under conditions prevailing in a boom or depression. Then we see that, like a cork ruler, it rides up and down with the waves instead of being anchored to the rock of principle and serving as a true measure of the rise or fall of values.

About a decade ago, for example, market prices of real estate rose to boom levels in many parts of the country, but the unsoundness of these prices could never be detected by means

*Building and Loan Annals, 1930, p. 291.

of such a standard. Since 1929, on the other hand, the market prices of all classes of real estate have rapidly declined throughout the country; but again this rule fails to show the logical unsoundness of present-day prices which are based upon a market dominated by foreclosures and forced sales.

Whenever the rule quoted above is followed to the letter, the resulting valuation is an appraisal that is true only for the moment or only as far as the current market in the locality is concerned. But in making an appraisal of this sort, the appraiser steps out of the role of an analyst seeking a valuation based upon a solid foundation and takes his place in the crowd "judging from appearances". Following the psychology of the crowd, many appraisers' valuations are as unstable as chips riding the waves, instead of holding to a steady course in stormy as well as placid waters. To make appraisals of this character, however, requires understanding and courage.

Present vs. Long-Term Appraisals

The determination of present day market values presents no problem. The comparison method is the only one available for this purpose. Its usefulness is confined, however, to the task of finding the selling price of a property under present conditions *only*, and under no circumstances should such an estimate be so labelled as to convey the impression, inadvertently or intentionally, that the figure arrived at in this manner represents the value of the property for a term of years, as in the case of an appraisal for a mortgage loan. In reality an appraisal of this kind has no validity beyond the date it is made, and affords little if any opportunity for the righting of the false views pertaining to real estate values prevailing under certain conditions. This is especially true in times of instability and uncertainty in real estate values.

The great constructive opportunity of appraisers in such times comes in making appraisals for purposes in which values over terms of years are desired, such as appraisals for mortgage financing purposes. Here the appraiser is put to his mettle, not only because his valuations directly govern the financing of the properties under consideration, but even more on account of the fact that these valuations become barometers of property values, and in the aggregate fix standards that come to be recognized as basing points for estimating values of all properties, particularly of residential properties.

Basic Tests of Value

The three traditional bases of real estate values: (1) market prices, (2) rentals, and (3) cost of replacement minus depreciation and obsolescence — are brought into this discussion only for the purpose of examining their merits as methods of arriving at the values of small homes. Of these three, only the last is sufficiently adaptable to all conditions and fundamentally sound enough to serve as a universal measuring-stick of residential property values.

Market prices in times like the present reflect such a distorted picture of real values that they are useless for practical appraisal purposes because they cannot lead to fair valuations (except for present day purposes only). Rentals are equally impracticable, because rentals seldom reflect true values of dwellings because few small homes are built for this purpose. The rented small home is the exception rather than the rule in most communities and is usually rented temporarily or pending sale of the property. The result is that in the vast majority

of cases the appraiser would be obliged to impute a purely hypothetical rental to the property, upon which he would then calculate its value. If he were to make an outright guess as to the value of the property the result could hardly be more dubious than it would be to base one guess upon another.

Since market prices and rentals, under present conditions particularly, are impracticable bases of residential values, we are left with cost of replacement minus depreciation as the only remaining basic test of home values. While it is true that very frequently dwellings are not worth on the market what they originally cost or would cost to replace, nevertheless the cost of the land and improvements serves as the most satisfactory starting point from which to estimate the values of residential properties under all circumstances.

When cost of replacement, minus reasonable deductions for depreciation and obsolescence is used as the corner-stone of residential values, we avoid all of the practical difficulties inherent in attempts to base values upon demoralized market values or imaginary rentals, and arrive at a solid foundation upon which we can build a stable standard of residential values which is as sound in times of prosperity as in times of depression and is as well adapted to one community as to another, proper allowance being made for differences in local building costs among different communities as well as for differences in land values.

When correctly applied, this method involves a searching analysis of every basic factor governing residential property values. It includes not merely bare construction costs, but land costs, financing costs, and carrying or ripening costs as well. It takes within its purview also depreciation, including obsolescence, suitability of location, architecture, interior plans, character of construction, and surroundings. Under the head of depreciation attention is also directed to such considerations as local building and business conditions, which if stationary or declining tend to lower values below physical costs of replacement.

The practical application of this method consists of two principal steps: First, to present an itemized list of all costs that would normally be involved in replacing the property, including land, improvements, and financing costs, and second to deduct from this an itemized list of those features that detract from the value or marketability of the property. The total deductions are then subtracted from the total cost of replacement, leaving the net worth or value of the property as illustrated in the following outline:

Present Cost of Replacement:

Building (dwelling) .....$_____
Garage .....$_____
Driveway .....$_____
Cost of Financing .....$_____
Miscellaneous .....$_____
Total .....$_____

Deductions For:

Poor Architecture .....$_____
Poor Interior Plan .....$_____
Poor Location .....$_____
Needed repairs and replacements $_____
Wear and tear .....$_____
Other .....$_____
Total Deductions .....$_____

Present worth of improvements in this location .....$_____
Value of lot .....$_____
Total replacement value.....$_____

In this method rentals and current market prices of dwellings are ignored intentionally for reasons given earlier in this discussion. The method of appraising a dwelling here briefly

outlined involves a thorough analysis of each property, and bases the value of every property strictly upon its own merits. It gives consideration to intangible as well as tangible elements of value and does this by an itemized analysis of each property. Instead of attempting to fix a given rate of depreciation and writing down the value of improvements according to their age, every item affecting depreciation or obsolescence of each property is weighed separately, with the result that a dwelling fifty years old might actually show less depreciation than one ten years old. This method, furthermore, ignores current market ups and downs in selling prices of dwellings, and gives weight to those factors that govern values over a period of years.

Viewed in this light, residential property values today are found to be far more substantial than present so-called market prices would indicate, because full consideration is given to all elements of value outside of as well as within the property.

The present depressed state of the real estate market will pass as quickly as the mists of uncertainty clear away, and we can once more see clearly a steadily growing population, in a country of rich resources, and a people with a spirit that finds in every forward step the open door to new and greater opportunities. Furthermore, if there were any time in the last fifty years when real estate was a dangerous and unsafe investment it was before, not since, the crash. The effect of the depression has been to make real estate a safer and sounder investment from every angle. Inflated values have vanished, surplus building has been actually or potentially utilized, families have increased in number despite the fact that many thousands of marriages have been deferred pending the return of better times. Most important of all, the building of homes has been almost at a standstill for several years; as a result of which many communities even under present conditions have practically no vacant houses. The result is that only a moderate return of prosperity will result in an acute shortage of residential properties, probably within the next year or two, due to the combined action of wear and tear, obsolescence and decreased building, together with several years of "huddling" or doubling up of families, deferred marriages, and an increasing population. The appraiser who cannot see higher and sounder residential values five years hence, despite the demoralized market conditions existing for the moment, is blind indeed to the host of factors heralding the dawn of a new era in real estate in which the only former things that have passed away are those which never did contribute or add anything to real and honest values.

Some Value Factors In Residential Property

By PHILIP W. KNISKERN, M.A.I.

IN making a valuation there are three general steps.* First is the determination of all of the pertinent facts concerning the property, all of the forces acting upon it and all of the conditions and incidents as to its existence. These facts and conditions which are sought and studied fall into three classes, (a) general, (b) local or adjacent, and (c) inherent, or of the property itself.

The second step is the orderly tabulation and consideration of these data and the computation and amalgamation of them into a result or value. Third, there is the expression of this result in terms of money and the report, written or verbal, setting out this value together with the most essential facts and figures to support it.

Among the general factors we find psychology of people, panics, world markets, national growth and trends, rapidity and direction of city growth, transportation of all kinds, city planning and zoning, commerce, population, wealth, etc. There is the competition of other cities, of other merchants and merchandising centers, the competition of capital seeking investment, of tenants seeking space and of space seeking tenants, and competition in its many other manifestations. One must consider the supply and demand of construction materials as well as the supply of investment money, of space, of sites, and other items. Then there is the return expected on the various types of investment as exemplified by the general security market. Investment return from real estate is not expected to follow the daily variations of the general investment field but does conform more or less to its long swings.

Having thoroughly worked these general matters, attention is next directed to that which is close at hand, that is, local or adjacent factors but not of the property itself. Here we study competitive centers, buildings, rents and services; the length, width, grade, and pavement of streets; the utility, race, nationality, social status, and reputation of the neighborhood; transition or changing utility of a section; adjacent utilities, buildings, nuisances, parks, and air spaces. There is the general rent level of this and competitive localities for similar accommodations. There is the quantity of business available to merchants of the type for which the improvement is suited and the number of merchants among whom this definite quantity of business must be divided. We must analyze the various recent transactions in the locality involving similar properties and from this be guided somewhat as to market value and the general condition of the real estate market. Is it active or inactive, and what will it be in the future? Finally, we recognize that our larger cities, at least, tend to segregate themselves into definite sections, each given over, in the main, to one utility such as the financial, retail, outlying shopping, light manufacturing, industrial, apartment house, or residential sections. Each of these sections has its own peculiar characteristics. In the normal growth of the city certain utilities follow certain others in a definite sequence and they all bear a rather definite relationship one to another.

We have thus developed a picture which forms the background against

*The author has quoted freely in the first part of this article from his book **Real Estate Appraisal and Valuation**, published in 1933 by the Ronald Press Company.—Ed.

which we hold the particular property under study for comparison and determination of the effect of the myriad influences at work.

The study of the inherent factors or those of the property itself is broken up into (a) the extent of the ownership or interest being valued, (b) the land or site alone, (c) the improvements alone, and (d) the property as a whole, both land and building, (e) the net income, and (f) the investment value.

A complete consideration of all of the conditions effecting a property with a proper weighting and balancing of the influence of each is essential to sound appraisal judgment. The orderly consideration of these factors is a necessary corollary.

Any attempt, however, to list *all* of the factors that may affect any property is futile, but if many of those that are more common and more important are tabulated, then those that may not be mentioned will be readily suggested through a systematic classification and grouping.

I. Factors—General

1. Population Trends: increase, decrease, directional, racial, rate of changes.
2. National Wealth: available capital, national income, trends, rate of changes, income of peoples suited to the house under consideration.
3. Trend of Governments: City, County, State, National.
4. Living Standards: present, trends, rate of change.
5. Current Credit and Banking Facilities, equity, mortgages.
6. Purchasing Power of Dollar: stable, changing, trend, rate of change.
7. Living Costs, Rents, Taxes, trends.
8. World and National Markets, panics, depressions, recovery.
9. City Planning, Zoning, Transportation Changes — actual and potential.
10. Relation of District and Parcel to City Structure.
11. Supply and Demand: as to vacant properties, improved properties, construction material, labor, financing, Buyers, Tenants.
12. Construction Costs, current, trends, embargos, strikes, inventions.
13. Competition from Other Districts, Neighborhoods, Suburbs, or Cities, market prices, construction costs, rents in competitive locations.
14. Comparison to Competitive locations, price, desirability, attractiveness, advantages, transportation, highways, schools, churches, fire and police, water, gas, electricity, paving.
15. Real Estate Market, active, inactive, in a boom or slump, trend and rate of change in general market also in market for the particular type.

II. Factors — Local or Adjacent

1. Water Supply, Gas, Electricity.
2. Streets, length, width, pavement, straight or curving.
3. Sidewalks.
4. Access to Property, pavements, undesirable neighborhoods, transportation.
5. Fire and Police Protection.
6. Schools, Churches, Libraries.
7. Shopping Centers, Marketing Conveniences.
8. Recreations, Movies, Parks.
9. Transportation — bus, steam, surface, subway, motor highways.

10. Distance, time, effort, cost, convenience to reach employments suited to residents typical of section.
11. Employment records of accessible industries.
12. Surplus — Shortage — demand for homes of similar class.
13. Supply of vacant available for similar or more modern equivalent improvements.
14. Other influences or conditions permitting, encouraging, or retarding competitive, similar, or more modern equivalent houses.
15. Construction Labor and material — supply — availability — present costs — cost trends — temporary shortage or excess — embargos — labor strikes or troubles — labor efficiency.
16. Construction Financing — availability — cost — restrictions.
17. Type of nearby buildings — type and equipment of newer buildings —trend of type and equipment.
18. Attractiveness of adjacent and nearby properties—of the neighborhood.
19. Adjacent or nearby "eyesores" — nuisances—objectionables.
20. Nearness to adjacent buildings— clearance and space between next door neighbor.
21. Are neighbors' driveway, chimney, kitchen, garage, back door, garbage, etc. objectionably located in respect to front entrance, porch, bedrooms, etc. of subject house.
22. Relative elevation of adjacent lots —surface drainage — floods.
23. Characteristics of district and neighbors—race, color, religions, social classifications, wealth, poverty, occupations, reputation.
24. Local prejudices.
25. Improvements suited to and consistent with neighborhood — overimprovement — underimprovement — requires social or financial position above that of balance of district.
26. Level of values, costs, rents in district.
27. Level of values, costs, rents in district compared to competitive districts.
28. Trend of values, costs, rents in district.
29. Extent to which character of neighborhood is or is not permanently established by large number of buildings, small amount of vacant land, temporary structures, upward or downward trends.
30. Pests—termites, mosquitoes, etc.
31. Prevailing winds — exposure to storms — floods.
32. Special local conditions affecting cost of living.
33. Transition — utility trends — rate of change.
34. Trend of multiple dwellings, to retail and industrial.
35. Zoning — protection — possibility of objectionable adjacent or nearby uses.
36. Effect of directional growth of city.
37. Deed or title restrictions on adjacent holdings.
38. Adjacent or nearby parks, nuisances, vacant, air spaces, water, industries.
39. Transactions in comparative properties—adjacent or nearby—distant competitive districts.

III. Factors—Inherent

Land

1. Size, shape, and topography of lot.

2. Restrictions or advantages of size, shape, and topography of lot for normal use—potential higher use.
3. Utility of lot—present—potential.
4. Competitive vacant—price—value—physical restrictions or advantages—price and value short and long term trends.
5. Soil and sub-soil—fertility for shrubs, grass, etc.—firmness and strength to support foundations.
6. Elevation in relation to street—adjacent lots.
7. Location in block.
8. Surface drainage.
9. Restriction as to improvements or use—physical—legal.

Building Design — Exterior

10. Suitability to architecture of neighborhood — attractiveness — eye appeal.
11. Modern — obsolete — out of date —modernization possible or contemplated.
12. Porches — verandas — terraces —sleeping porches.
13. Architectural type—pure or composite type—suitability to climate —freaks.
14. Units well proportioned—disproportioned.
15. Garage — attached — detached—car capacity — construction materials.
16. Roof—wood shingle—roll roof—asphalt—asbestos—slate shingles —tile.
17. Building exposures to prevailing winds, sun, shade.

Building Design — Interior

18. Floor plans—room sizes—relative location of rooms.
19. Efficiency from housekeeping viewpoint — access to various parts — halls.
20. Type of trim—trim sections modern, old fashioned.
21. Floors — wide — narrow — oak — pine — 3-8 in. or 7-8 in. — marble — tile.
22. Structural members — ample or undersized — spring in floors — settlement or shrinking cracks.
23. Basement — size — laundry — recreation room — fuel storage — floor drains — waterproofing.
24. Plumbing — iron pipe — brass pipe — hot water heater — fuel cost — sillcocks — shutoffs.
25. Bathrooms — number — size — floors — wainscoting — tub on legs — apron tub — shower over — shower stall — bracket lavatory — pedestal lavatory — chromium plating — windows — ventilation — wall heaters — electric lighting — electric outlets — medicine cabinet, wood, metal, venetian.
26. Kitchen — size — floor — sink — drainboards, wood, enamel, monel, — stove — ventilator fan — window locations.
27. Bedrooms — number — size — ventilation — light, artificial and daylight — closet space.
28. Living Room — Dining Room — Library — Den — Music Room — Pantry.
29. Utility Closets — Fireplaces — Breakfast Nooks — Sun Parlors.
30. Heating Plant — steam, air, hot-water — single pipe or return system — air conditioning — fuel costs — coal, gas, oil burner.
31. Modern building — suitability to modernizing — need for modernizing.
32. Resistance to obsolescence.

Construction

33. Quality, well built, "Jerry" built, stone, brick, frame, stucco.

34. Fireproof, non-fireproof, — foundations, firm, weak.
35. Resistance to depreciation.
36. Reproduction cost.
37. Insurability — fire hazards — insurance rate, high, low, normal.

Age

38. Actual age — effective age (effect of obsolescence and depreciation).
39. Physical condition — structural, finish, equipment, — past maintenance, cost to maintain.
40. Depreciation — accrued depreciation — rate of future depreciation.
41. Obsolescence — accrued obsolescence — rate of future obsolescence.

The Combined Whole

42. Relation of building to land — relative costs, sizes, areas.
43. Maintenance — past results — cost to maintain house and grounds—relation of cost to income of typical occupant—manner in which property is now kept.
44. Cost — original — reproduction —relation to cost of surrounding properties — relation of reproductive cost to current value.
45. Taxes—unpaid street, sewer, and other special assessments — possible future specials — assessed value — fair or burdensome assessment.
46. Suitability of whole to social status of occupant.
47. Ensemble effect — land — building — shrubbery — trees — outlook — view — exposure.
48. Objectionable history — previous deaths in house — sicknesses — notorious occurrences.

Tenure and Ownership

49. Quantity and quality of title.
50. Restrictions — easements — reversions — rights of way — party walls — set back lines — zoning restrictions.
51. Probability that restrictions and other foreign rights will be enforced.
52. Occupant — character — owner; tenant — family or sentimental ties to property — ability to maintain — employment.

The Appraisal Of Single Family Dwellings

By HARRY S. CUTMORE, M. A. I.

OWING to the turbulent economic conditions through which we are now passing, the task confronting the appraiser of single family dwellings has assumed complexities hardly anticipated a few years ago. Homes built in suburban sections of our large cities five years ago are being offered for sale at one-half of their actual cost with few prospective purchasers.

It is, of course, recognized that owing to the recession in industrial and commercial activities there is at present a decidedly restricted market for real estate and that in some instances the original cost of a piece of property may have little relation to its actual value. However, when we find that well-located modern homes in almost any part of the country can be purchased at a sum considerably less than the replacement cost, it is apparent that the problem of determining the value of such properties offers numerous difficulties.

Generally speaking, there are three methods for determining the value of a piece of property, the first and most dependable being that of capitalizing the expected net earnings; the second, that of comparison with the prevailing market for similar properties; and finally that of determining the reproduction cost for the building, deducting therefrom the accrued depreciation and adding the land value.

Obviously a single family dwelling is not income producing property and cannot be appraised on the basis of expected earnings. In the absence of an active real estate market the difficulty of finding strictly comparable properties limits the use of the comparison method. Under existing economic conditions there appears to be no justification for appraising a home on the replacement method, since it is generally admitted that the market value of single family dwellings is considerably less than the replacement cost.

It is, therefore, apparent that none of the generally accepted appraisal methods are applicable to the valuation of homes and small residential properties. The sound valuation of such properties can only be arrived at by summarizing the several elements of value.

Reproduction Cost of Building

Inasmuch as it is safe to assume that 80% of all single family dwellings in the average community are fairly well-located so as generally to meet the economic need and demands of the occupants, the basic element of value is the reproduction cost. This should be carefully determined and the resulting figure serve as a basis for all further calculations. A quick piece bill can readily be made of the principal structural and building equipment items, as is shown for the building described below:

Description of Good Grade 6-Room Brick Bungalow

Six-room modern brick bungalow. Full basement, cement floor, plastered ceiling, steel posts and beams. Octagon front, pressed brick front and short return, balance common brick, 12 in. walls, ½ of rooms canvas or craftex, others papered or painted, birch trim and doors, tile wainscot in kitchen and bath, good grade plumbing fixtures. Hot water heat, thin tube radiators. Fireplace with average precast stone or brick mantel and gas or electric unit. Rough pine floor in attic. Tile, slate or asbestos shingle roofing, galvanized iron gutters, enclosed rear porch, weather strips, built-in cabinets. Add for pressed brick all sides, attic rooms, heat control apparatus, oil burner, copper sheet metal work, extra plumbing, better than ordinary mill work.

In appraisal organizations where a considerable volume of appraisal work

Reproduction Cost of Good Grade 6-Room Brick Bungalow

Item	Amount	Unit Cost	Total Cost
Excavation	276 yds.	$ .60	$ 166
Foundation	1,264 cu. ft.	.32	405
Walls — Grade to 1st. Face brick	180 sq. ft.	.77	140
Walls — Grade to 1st, Common brick	512 sq. ft.	.45	230
Walls — 1st story, Face brick	350 sq. ft.	1.05	367
Walls — 1st story, Common brick	1,240 sq. ft.	.50	620
Partitions	1,528 sq. ft.	.42	642
Basement Floor	1,570 sq. ft.	.18	282
1st Floor	1,570 sq. ft.	.53	833
Attic Floor	1,570 sq. ft.	.28	440
Roof	2,450 sq. ft.	.43	1,054
Front Porch	50 sq. ft.	1.50	75
Rear Porch	96 sq. ft.	2.00	192
Concrete stairs	1		12
Pine stairs	2	25.00	50
Front Door	1		35
Rear Doors	2	20.00	40
Interior Doors	13	30.00	390
Pivoted Sash	63 sq. ft.	.50	31
Double Hung Sash	282 sq. ft.	1.50	423
Heating			700
Plumbing	5 fixtures	150.00	750
Electric Outlets	44	4.50	198
Electric Fixtures	15	10.00	150
Gutters	200 ft.	.35	70
Miscellaneous			985
Total Cost			$9,280

Floor Area 1,600 sq. ft.
Unit Cost $5.80 per sq. ft.

of this type is undertaken, the square foot cost can be determined for the principal types and sizes of the various classes of dwellings which will obviate the necessity of piece-billing the structures. This square foot cost applied to the square foot area will give the total reproduction cost of the structure.

For illustration brick bungalows can be divided into six basic grades in accordance with the character and quality of the materials entering into the construction of the building. These in turn are further subdivided according to the area and shape of the structure. As a result of these computations which must be based on original piece-bills, a set of 28 cost differentials is developed for each grade of bungalow. With a classification of 6 basic grades and 28 differentials for each grade, 168 distinct unit costs are developed for brick bungalows. The table below shows the result of the computation developed by our building appraisers.

Determination of Final Value

After having determined the reproduction cost of the building and the

Table Showing Variation in Unit Cost Due to Size and Shape for Good Grade 6-Room Brick Bungalows

Shape	Square Foot Area						
	1200	1300	1400	1500	1600	1700	1800
Square	$6.47	$6.21	$6.03	$5.84	$5.68	$5.53	$5.40
Rectangular	6.63	6.36	6.18	5.98	5.80	5.66	5.53
"L" Shape	6.84	6.56	6.37	6.17	6.00	5.84	5.70
Irregular	7.15	6.86	6.67	6.45	6.28	6.11	5.97

valuation of the land, the total replacement of the property is obtained. It is at this point that the actual appraisal problem presents itself.

Our organization recently had the task of placing a valuation on a high-grade 3-story dwelling located in one of the best residential sections in the City of Chicago. The lot, with a frontage of 50 feet and a depth of 125 feet, was restricted to the construction of single family dwellings and had a value of $6,000. The reproduction cost of the residence amounted to $48,000. An allowance of 25 per cent was made for physical depreciation, as the building was less than 15 years old and in good condition. On a purely physical basis of appraisal, this property, therefore, had a sound valuation of $42,000.

After giving full consideration to the declining trend of the immediate and surrounding neighborhood, the lay-out of the particular structure and decreasing demand for buildings of this size and type, the low rental value of the property, the improbability of obtaining any early change in the zoning for the site, and other detracting factors which were carefully studied and weighed, the final valuation of this property was established at $22,000.

Special training and experience is necessary in order readily to recognize and properly estimate factors which detract or add to the value of residential property. These factors are diverse and manifold and no definite rule can be set forth for their measurement. For checking purposes they may be classified as shown below so as to facilitate the appraisal procedure.

1. Building

Reproduction Cost
Age
Condition
Design
Exposure
Light and Air
Room Layout
Number of Rooms
Number of Bathrooms
Interior Finish
Heating Plant
Plumbing Fixtures
Electric Fixtures
Electric Outlets
Closets and Cabinets
Porches
Over-improvement
Under-improvement
Misplaced Improvement

2. Utilities

Water
Sewers
Electric
Street Cars
Buses
Railroads
Street Improvements
Alley Improvements

3. Lot

Size of Lot
Shape of Lot
Location of Lot in Block
Topography
Soil and Sub-soil
Trees and Shrubbery
Probable Increment
Restrictions
Zoning Ordinance
Encroachments
Easements

4. Neighborhood

Schools
Shopping Centers
Racial Types
Character of Inhabitants
General Environment
Community Activities
Parks and Playgrounds
General Trend

5. General

Taxes
Assessments
Rental Values
Fire Protection
Police Protection
Location of Industrial Plants
Type of Industrial Plants

Valuation of Land

The value of the land used for single family dwellings must be appraised on the basis of comparison with sites of a similar character. Due consideration is given to the size and shape of the plot, the existing restrictions and easements, the street grade as compared with the level of the plot, general topography and character of sub-soil. A lot 25 feet wide, having a depth of 200 feet, with a 20-foot grade above the street level and having outcroppings of rock extending above the surface of the ground, has many undesirable characteristics which have a detracting influence upon its value. On the other hand, a lot 50 feet wide and 100 feet deep, situated on the same level with the street, free from rock formations, having a few well-located shade trees, has many desirable qualities for use as a home site which enhance the value of the lot.

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Residential Property

By IVAN A. THORSON, M. A. I.

RESIDENTIAL property, whether single or multiple, may classify either as an investment property (income in the form of money) or as a non-investment property (income in the form of amenities). Houses occupied by owners belong to the latter, while rented houses, duplexes, flats, apartments and hotels come under investment properties, and are appraised in the main as other investment properties, where income is in the form of money (rents).

Apartments and residential hotels, to some extent, partake of both homes and business enterprises, a fact often overlooked by appraisers. Residential property, whether single or multiple, becomes obsolete sooner than most any other type of urban property. Because of this fact, allowance should be made for the comparatively large earnings from such properties during the first three to five years. It would be obviously a mistake to capitalize the land from the residual earnings the first few years except at a very high rate. The value of the land occupied by a new apartment in a desirable district would otherwise likely show too high a value as compared to other similar land in the neighborhood. Such relatively large earnings are, however, soon cut down, when other more up-to-date apartments are erected, when repairs and improvements must be taken care of, and when other districts become more fashionable.

In an appraisal of a furnished apartment, we wish to call attention to the importance of the following: that the furniture be given a life of not to exceed 6 to 12 years, that interest on investment in the furniture should be figured at the high rate commensurate with the risk involved, say 11% to 15%; vacancies from 15% to 20%; and interest on investment in the building seldom less than 10%.

While this treatment at first glance may seem somewhat drastic, we do not believe it is too severe. It has been recently suggested that a certain percentage of the earnings from the new apartment be set aside as a sinking fund against old age of the apartment. There is perhaps no department of appraising where we are so much at sea as in apartment house appraising. Over-optimism in appraising this type of improvement is almost the rule, and a great majority of apartments spell losses to their owners at some time in their earning career. There is need for considerable research work to supplement the rather meager data that we have on apartments at the present time.

No doubt the apartment house rentals of today (April, 1933) are entirely too low. This has two effects: first, it means eventual loss to the owners, and secondly, it discourages home building, because at the present low rentals asked for apartments, people feel that they can not afford to own homes.

Owners of adjacent business property naturally will encourage the building of apartments, as it means enhancement of their business frontage. The result is often an overproduction of apartments and the building of too few single dwellings. A rather unsound condition. Single dwellings, more than anything else, mean permanent homes and a more stabilized city.

The Standards of Appraising Practice of the National Association of Real Estate Boards suggest the price comparison method as the one best

From the Authors Simplified Appraisal Course.

adapted for appraising single residences—that is, the appraiser should collect a set of market prices of comparable properties; recent, as well as older sales data, should be included. We quote:

> The comparison between the property under appraisement and those making up the set used for comparison is accomplished by analyzing and appraising the points of similarity and difference between the property under appraisement and each property comprising the set. In the case of single family dwellings, for example, such points of comparison as age, type of construction, state of repair, relative desirability of location, number of bedrooms and bathrooms, type and condition of heating plant, garage, size of lot, etc., should be included.
>
> With the comparative analysis completed, it can be determined where among the graduated comparison set of properties the property under appraisement should be placed. For example, suppose the graduated scale of market prices of comparable properties were determined as follows:

$10,000	$10,500	$12,000	$15,000	$18,000
1	2	3	4	5

> and it was determined by comparative analysis that the property under appraisement was worth more than any one of the first three properties, but less than either of the last two, then the value of the property lies between the values of No. 3 and 4, or in other words, between $12,000 and $15,000. By interpolation between these two values the tentative value can be determined. This tentative value is then distributed between its component parts, such as land and building, for the purpose of checking the accuracy and reasonableness of the tentative value.

It is further suggested that the value thus obtained be checked against the reproduction cost of a building similar in volume and grade. This should be done by the cubic or square foot method. The price per cubic or square foot of any type of residence may be secured from local builders. In some localities the square foot method is used almost exclusively for residences. The cubic foot is the more accurate and one that is being used increasingly in the greater part of the United States.

The following is taken from "Practical Suggestions for the Appraisal of Residential Properties for Real Estate Loans," by Philip W. Kniskern, and illustrates his method of measuring a building for appraisal purposes.

> Let us take a simple rectangular house and follow the mathematical computation of its content.
>
> To obtain the area we take the outside dimensions of the building to the nearest six inches or one foot. This should not include Porches. In the example twenty-eight feet by thirty-two feet is 896 square feet.
>
> The height is that from the basement floor to the average point of roof. You ask the top or bottom of the basement floor? Theoretically the bottom, but as basement floors seldom exceed four inches in thickness and too many times are hardly two inches, the statement "basement floor" is sufficient. In high class construction with heavy floors, sometimes reinforced, then use the bottom of the floor.
>
> Basements run from six feet six inches to seven feet six inches in the clear. The floor construction is about twelve inches so that the average condition is about eight feet from basement to first floor. Any excess head room is not necessary nor demanded and the extra content from the excess height add little if any to the value and need not be recognized.
>
> The first floor is generally between eight and nine feet from floor to ceiling and the second floor construction takes ten inches to one foot, so that in a house with low ceilings we have about nine feet from first to second floor and with normal desirable ceilings ten feet.
>
> Similar reasoning applies to the second floor with a few inches correction because of the lighter ceiling joints.
>
> Ceilings eight feet or under give a very cramped feeling in the room and depreciate the value of the house. A good

place to reflect this is by penalizing in the form of a reduced cubic content. Anything from eight feet three inches down might be figured at nine feet from floor to floor.

From eight feet six inches to nine feet is a very satisfactory height and variations between these limits affect value very little. So all such ceiling heights may be figured as ten feet from floor to floor. Where ceilings are more than nine feet, we must consider the general characteristics of the whole house. If it is an unusually attractive dwelling and the high ceilings are consistent and necessary with everything else and the house is more desirable because of the extra height, we may allow for them. But in the standard or usual modern home they are not necessary and quite inconvenient, so they should be figured as nine footers (or even eight footers in some cases of inexpensive houses) and the extra height disregarded so far as cubing is concerned.

The volume of the attic space, since it is of triangular section, is the area of the base times one-half of the altitude, that is one-half the distance from roof rafters to the ridge; in this case one-half of six feet, or three feet.

Height

With basement
8 plus 20 plus 6/2 equals 31 ft.
Without basement
2 plus 20 plus 6/2 equals 25 ft.

Cube

With basement
32 x 28 x 31 = 27,776 cu. ft. (Say 27,800)
Without basement
32 x 28 x 25 = 22,400 cu. ft.

In buildings with flat roofs there is no reason in carrying this height to the top of the parapet walls. The height should be figured to the mean or average point of the roof. Varying heights of parapets may be necessary to meet some physical conditions of the building but the apartments below in otherwise similar buildings are not any more valuable because there is a ten foot parapet on one building and only three feet on the other.

So with this building we have eight feet and three feet, or thirty-one feet in height.

Again I repeat, be consistent and practical in your accuracy. Do not measure the outside walls to the fraction of an inch with a steel tape and then guess the height.

If a building has no basement, if it be in a northern climate, where four foot footings are required to get below the frost, some two or three feet may be allowed below the first floor, and the height total two feet, ten feet, ten feet and three feet, total twenty-five feet. If in the south, where footings rest almost on top of the ground, one foot is sufficient.

With a part basement endeavor to approximate the exact content. If in this case there is a basement fifteen by twenty-eight under the rear, figure the cube:

896 sq. ft. by 25.....22,400
15 by 28 is 420 sq. ft. by 6.... 2,520

Total Cube 24,920
Say .....25,000 cu. ft

Figure the building as no basement first. This allows two feet below the first floor; our basement allowance is eight feet so that wherever the basement exists add six feet more in height or fifteen by twenty-eight by six.

If it is one story use the heights eight, ten and three, total tweny-one feet—or if without basement two, ten and three, total fifteen feet.

Do not use these figures blindly, adapt them to the building you are working with.

Fifty Pertinent Suggestions

1. Speculative Value has obviously very little place in an appraisal.
2. "Sales" Values: (Kniskern)
   - A. Sales do not create values—values result from conditions far more substantial and deep-rooted.
   - B. Price paid may be nothing more than an expression in terms of money of the judgment of two interested parties as to value to themselves of that property—any other two might agree on an entirely different figure. A sale does not itself create any value. It

is merely an expression of a value—no reason why the combined judgment of both buyer and seller should be an infallible guide to the proper value. Because someone foolishly pays a high price for a parcel does not establish its reasonable use value.

C. Influences which affect price paid but which have no relation to value are:

a. Purchase of single lot to complete a plottage.

b. Purchase of an adjacent lot for self-protection.

c. Purchase to prevent existence of a nuisance.

D. Should many people pay more than the present value will justify, such expressions of judgment may in time become general enough to be accepted as the going value (market value?). Even such an extensive confirmation of such value may not be a justified value.

3. Too much often paid for land bought on very small initial payments. Difference between such sales and cash sales often between 20% and 25%.

Sales often misleading where there is change in use. First price paid immediately after change apt to be too high. Very rarely the opposite is true. (Compare change in use of district occasioned by the mere fact that restrictions have run out, and where the natural growth of city calls for a change of use.)

4. Each individual property has as a rule numerous characteristics, each contributing towards or detracting from the total value.

5. In listing the various characteristics contributing their elements of value, one should not go into minute arithmetical detail, as adding $5.00 for this and $10.00 for that. What is recommended is the mental process of breaking down each property into its elements and considering each element.

6. In residences the actual use or utility value must be determined, whether particular features of the property are necessary or whether they are luxuries, whether efficient for the purpose for which the improvement was designed; also whether consistent and harmonious with other characteristics of the property. Spanish tile roof may, for instance, be quite consistent with the proper type of home, but it is out of harmony with a wooden shack.

7. As to appreciation value due to the probable change in district—it is rather risky to allow for this unless there is definite assurance that the improvement in the district will take place. In most cases it should be ignored.

8. A dynamic or progressive city will have districts in the path of its development where values will rise with considerable certainty. Some allowance may be made for this.

9. Parking costs and inconveniences attending the driving of automobiles into the congested "downtown" district are direct obstacles to further expansion of downtown sections—conversely, these things help outlying districts.

10. Zoning ordinances tend to enhance and stabilize the value of particular parcels. This is not always conclusive. They must be

fully understood and the definite influence on the particular property under consideration must be determined. It is possible that such influence may be negative.

11. Restricting clauses in deeds are not always effective as, for instance, that certain races may not buy or lease properties. You may restrict "use and occupancy" only.

12. Food markets have almost entirely moved away from downtown sections. Chain stores have been effective means to decentralize "downtown".

13. Among the compensatory factors which offset to some extent the moving away of food stores, etc., from downtown sections are the following: Increase in the personnel of employees and officers in telephone, gas, electric light and other public utilities; the increase in the employees of central banks having branches in various parts of the city—the increases in the office forces of these various concerns mean that more office space is necessary and spell additional buying power. Nevertheless, it is true that every downtown is today fighting for its economic life.

14. Often a development is checked by obstinate owners who are "holding for" unwarranted prices. The opportunity in such cases often passes by, never to return.

15. The side of the retail street more accessible to the best buying power gets the more favorable development, even if this is not on the shady side. Other things being equal, the shady side of the street will usually have the better development.

16. Fine progressive developments exert their influence on all other similar properties—they enhance the quality of such other properties whether in the district or outside the progressive districts referred to.

17. There is always competition existing between different parts of the city—every suburb of a large city is in competition with values in other comparable suburbs in the same city.

18. Accessibility of workers' residences to stores, schools, theatres, etc., will often make one section successful, while another one which is not so favorably situated in this respect may be a failure.

19. Customs of the people of the neighborhood and their necessities will affect values—the mere threat of an undesirable encroachment may mean reduced values.

20. The discovery of bootleggers and other undesirable tenants has often operated to materially reduce rents in otherwise very fine districts.

21. In a district which is changing use, say to retail business, the value of the old improvements (residences, f.x.) almost disappears. Appraise residences in such districts either as such, giving house and lot their normal value—less a certain depreciation due to the fact that stores may be or are built right on the street obscuring houses with set-back; also because of resulting undesirable living conditions—or you may disregard improvement and give the lot a moderately enhanced value due to its higher potential use. Appraisals in such districts are always beset with difficulties.

22. What constitutes inadequate lot frontage and lot depth will depend entirely on the type of utilization.

23. In residential property, no detriment as a rule for lot to be from 4 ft. to 6 ft. above established ground level, while 20 ft. to 30 ft. would be disastrous. Very large lot, standing high above street, has considerable potentialities in residence and apartment districts.

24. Lots requiring expensive alterations, excavation or building up, do not justify high initial price—final price of lot should be initial cost plus the cost of bringing it into use (hillside lots).

25. Treat assessments as bill payable in some instances, rather than as an amount to subtract from the value of the property. When improvement paid for by the assessment is worth at least the amount of the assessment, it should always be so treated.

26. Difficult to use tables and formulae in figuring residence lot values. Depth tables should be used only where the front part of the lot is worth relatively considerably more than the rear part.

27. Oversized footings and too-thick walls should not be recognized as adding more value to the structure than footings and walls which are adequate, but of smaller size. Sometimes the heavy wall is a detriment, as it cuts down the inside space.

28. Extreme designs, lack of good taste, always detract from value. Conservative designs best.

29. Cedar shingles always satisfactory. Plain slate-covered asphalt roll roofing detracts from value because of appearance. Slate roofs, Spanish roofs—very excellent, but must fit the structure and neighborhood.

30. Many structures 20 years old but well built and well taken care of have a less effective age than other structures 5 years old, poorly built, of bad design and not maintained.

31. Logical and convenient arrangement has a great deal to do with permanent value—means less obsolescence.

32. Cost of construction may or may not coincide with value.

33. Size and equipment of rooms must fit district. It would be a mistake to build apartments containing 1,000 sq. ft. when the clientele in that district is only able to pay for 600 sq. ft. Arrangement of rooms is very important.

34. A cleverly designed apartment with especially attractive features may rent for considerably more than other apartments costing as much. Owner must in such cases look out for competition which almost invariably will set in when net profits show better than 10% from a project. In such instances, it is well to set aside some of the early excessive earnings as insurance against later decline in rental return.

35. Value of land is not set by average user, but by the one who can use it to the best advantage, that is, the one who can put the land to its highest and best use.

36. The dispersion in the selling price of land the utilization of which is of a lower order, like farm lands, is seldom over 5%, while in case of land capable of the highest utilization the dispersion may be as high as 50%.

37. The degree of land utilization may be illustrated as follows: Grazing land—grain land—truck farming—house lots—apartment sites—ordinary retail—financial districts—highest class retail districts.

38. People who take over, say, an apartment and buy the furniture, which is put up for security for the lease over a period of time, usually figure they can make more in this way than by hiring out as managers for others. If they did not think so they would not take the risk. They more often than not are mistaken.

39. Population increase may enhance values in one section and decrease them in others. It is very rare that the static districts are helped by such influx of population.

40. The tendency of cities is to grow in concentric circles unless there are obstacles in the way. Growth follows the lines of least resistance. If growth is more or less in one direction, the center of the city will move with the population. This means the recession of values in certain parts, as the center of population moves away.

41. Oftentimes the growth of a city meets obstructions which may be physical or in the nature of undesirable districts which resist the change. In such cases the city will "jump" such districts or obstructions and establish itself beyond. The intermediate districts almost invariably become static and will remain static until they change use.

42. The prosperity of a retail outlying district will depend very greatly on the kind of population immediately surrounding the district. A family which has a spending power of $100 a month will be worth approximately three times as much to a business as a family with half this spending power.

43. In residential income properties the net return is a very vulnerable item. The slightest mistake in management, building of other similar improvements in the vicinity, the discovery of undesirable tenants, presence of new conveniences in other similar structures, change in the building styles—these and many other factors may wipe out the narrow margin between profit and loss. The danger of designating the capitalized present income as the value of the property will therefore be apparent.

44. Repainting, installation of little conveniences, interior decorating, re-roofing, fixing up the front lawn and putting in shrubbery (if residential property), will as a rule add to the rental, the selling price, or the loan value, an amount greatly in excess of the cost of such improvements. The average person cannot visualize the effect of a few dollars spent in this way—he must actually see the results.

45. A well-secured leasehold estate is perhaps the best possible investment from the standpoint of the lessor. The lessee's interest is something else again.

46. Some appraisers follow the process of an engineer. They establish "bench marks". These are convenient locations which are used by the engineer as starting points for determination of elevation for many other points. So in appraising one should have in mind a particular type of property in a certain location, such property having certain characteristics em-

bodying topography, street improvements, transportation, structural details, location with reference to amusement places, schools, churches, etc. The idea is then continually to compare the property under consideration with such idealistic properties. This will eventually become more or less subconscious. It is a good system and one to be recommended.

47. Farm land appraising requires special training. Fox has shown that income analysis can be applied to farm lands. Any other method is befraught with danger, as demonstrated during last decade. Income will fluctuate with market for products and farmers' ability. Average earnings for a number of years from each type of farm land must be considered. Farming now an industry. Secure also from Farm Division of State University free pamphlets re different kinds of farm lands and products from same. Blanks from Insurance Companies making farm loans also very suggestive.

48. Appraisal of industrial properties will depend somewhat upon purpose of appraisal. If for taxation, use reproduction process less depreciation. (See Prouty, Collins and Prouty, pp. 352-361.) If to ascertain value for sale to a merger, f.ex., good will item will often be more important than physical tangibles. Land prices will be governed by suitability (geographic and other), transportation facilities, availability of labor and public utilities and prices for same. Buildings, machinery, transportation, equipment. etc., should be appraised by those especially qualified in each line.

49. Real estate subdividing will in the future require more intensive study. We would recommend reading, "Real Estate Subdividing Activity and Population Growth," by Ernest M. Fisher of Michigan University.

50. Store rentals will obviously depend on what the lessee can afford to pay, assuming that lessee is the highest and best user of the premises.

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What A Residential Appraisal Manual Should Include

By JOSEPH B. HALL, M. A. I.

IN approaching the subject of an appraisal manual for residences, it would be well first to give some thought to the place of a manual in the appraisal process. A manual for residential appraisal from its very nature must confine itself to the physical or summation approach. It contemplates the division of the property into land and building and the separate appraisal of each. It is needless to point out to anyone familiar with the subject of appraising, that the appraisal procedure cannot be reduced to a set of rules like a mathematical problem, the correct application of which will result in one answer at all times. So many factors enter into the value of any one piece of real estate which are impossible of accurate measurement that two appraisers with the same basic data may arrive at different values and both be honest in their opinion. The more data obtainable, however, the more nearly alike will their answers be.

A manual contemplates the reduction of the appraisal to certain standards and rules and from that viewpoint is not acceptable where accurate appraisal is needed. There are occasions, however, where manuals are not only acceptable but necessary. The purposes for residential appraisals from the viewpoint of this article may be divided into three groups:

1. Valuation for Taxation.
2. Valuation for Loans.
3. Valuation for Individual Clients.

The assessment of real estate, due to the number of parcels involved, requires the establishment of certain rules which can be easily applied and still approach accuracy. Cook County, Illinois, for example, includes over one million parcels of property. To appraise that volume in the time allowed even with the use of certain standard procedures is almost a superhuman task — to appraise by analysis of each individual parcel is impossible. Manuals are therefore necessary in the valuation of property for taxation purposes.

Residential property represents a large percentage of the security for mortgage loans from the viewpoint of number. I have not seen any statistics on the subject but believe that only one other group would exceed this class of property — farm property. Most residential loans represent forty to sixty per cent of the value of the property. There is an ample margin of safety. Approximate values, therefore, are justified. Residential property for the most part can be reduced to certain standards with the result that standard procedure can be used which is not possible in the case of income properties. From the viewpoint of this article, only single family and two family dwellings are included. Apartment property which is purchased mainly for its income, is not included. Such property, while reduced to certain standard procedures for assessment purposes, can be properly appraised only after a thorough analysis has been made of the income producing powers of the property.

The appraiser of residential property for loan purposes is frequently required to cover a large number of properties in a short time. It is not possible to make the detailed study necessary for a thorough appraisal. Certain rules and standards can be applied with intelligence; and, properly

checked, will serve as a basis for the final opinion of value.

The valuation for individual clients, such as for the purchase or sale of a residence, should always contemplate the most thorough analysis of the property. For such purposes, a manual would furnish only a small part of the data which must be collected before the value can be determined. With proper use, it would have some place in the process along with all other data obtainable.

As stated at the start, a manual contemplates the division of the property into land and building. Discussing land first: much has been written on the application of certain rules in the appraisal of land. Such rules contemplate the establishment of certain unit values for the various blocks and the application of tables for varying depths and corner influences to arrive at the valuation of the individual parcel. Such procedure is necessary in tax appraisals, due to the size of the field and the desirability of uniformity of method. Unit values, if properly established, will reflect the relative value of the various blocks and enable comparison, not only between blocks in the same district but between districts. Since the unit is the same for the same type of property, comparison is possible without adjustment for varying depths. The application of depth tables properly prepared will give the value of lots of varying depths. Corner influence tables will make possible the establishment of corner lots.

Depth and Corner Influence Tables

There is no question but that the application of depth and corner influence tables to unit values results in inaccuracies in some instances, but such inaccuracies can be adjusted upon complaint by the taypayer. On the other hand, the method does establish equitable values in most cases and has the advantage of uniformity in approach for all properties. It may be pointed out that depth tables do not always represent the true relationship of lots of varying depths. Several examples may demonstrate this. In a purely office building district, certain depths are necessary in order to permit the erection of an economical floor plan. Too shallow a lot will result in shallow offices that may be difficult to rent in competition with offices of acceptable depth. In residential districts where lots are deep, ten or twenty feet added depth may add nothing to the actual value of the property. In the same district, shallow lots may have practically no sale value.

Corner influence tables reflect actual conditions even less than do the depth tables. Corner property fronting on highly traveled arteries may be less desirable for residential purposes than inside lots. In congested areas the corner is worth considerably more than the inside lots. While these inaccuracies do appear, their importance is negligible in view of adjustments that can be made to meet special conditions and the advantages gained by uniformity.

In the valuation of land for loan purposes, the use of unit values and depth tables is unnecessary since the analysis of the particular parcel can be made. Sufficient time is allowed to check conditions in the various neighborhoods and data is available upon which the value of the land can be predicated. Especially is this true of residential land since values do not fluctuate so widely within the same section as in the case of retail store property. Naturally, where appraisal for an individual client is involved, a detailed study of the property is necessary and unit values and depth and corner tables have no place in the appraisal process.

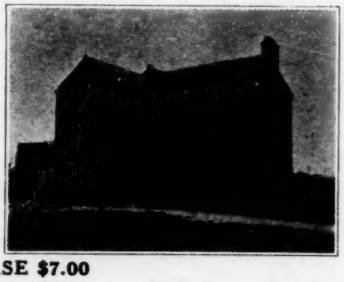
PLATE I

Modern Brick Homes

Class 9

BASE $9.00

Colonial type	Face brick, 4 sides
Basement	Hot water heat
Tile bath	Finished attic

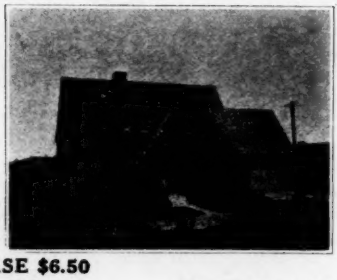


BASE $7.00

Spanish type	Skintled or face brick
Basement	Hot water heat
Tile roof	Tile bathroom
Small attic	

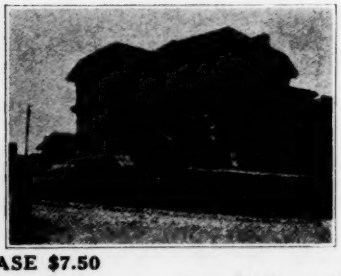
BASE $8.50

English type	Skintled or face brick
Basement	Hot water heat—Tile bath
No attic	Tile or slate roof



BASE $6.50

English type	Face brick, 4 sides
Basement	Hot water heat
Tile bath	Attic
Shingle roof	



BASE $7.50

Modern type	Face brick—4 sides
Basement	Hot water heat
Tile bath	No attic
Tile roof	

BASE $6.00

Small Colonial	Skintled or face brick
Basement	Hot water heat
Tile bath	Small attic
Shingle roof	

ADDITIONS AND DEDUCTIONS

Hot Water Heat 50c; Hot Air Heat 30c
Finished Attic 50c; Enclosed Porch 15c
Tile or Slate Roof 20c per sq. ft. Gr. ar.

It is not the intention of the writer to discuss in detail the various tables that have been developed for use in applying unit values in obtaining the value of lots, nor to discuss the method of establishing unit values. This subject is beyond the scope of this article. Several books are listed elsewhere in this magazine to which the reader is referred for detailed study of the subject. It is the purpose to point out the limitations of a manual in the appraisal of residential property. As indicated above, only in the field of appraisal for taxation purposes does the manual have practical value in the appraisal of land.

Building Manuals

In the field of building appraisal, a manual has wider application. Building manuals may be divided into three general groups:

1. Pictures with Base Prices.
2. Schedules with Descriptions.
3. Graphs.

The first group is that in most common use for tax appraisal purposes. It is the easiest of application but probably results in less accurate values than the other method. Plate I shows a typical page from the Assessors Manual prepared by Harry S. Cutmore, M.A.I., for Cook County in 1930. Pictures are given of six types of modern brick residences. A brief description is given of the house with a base price which is applied to the ground floor area. Tables of variations are used to establish the base price for houses that do not conform to the descriptions given. The variations are shown at the bottom of the plate. For example; if the first type of house had hot air instead of hot water heat, the base price would be reduced twenty cents representing the difference between the cost of these types of heat as applied to the base price. This particular manual contained in all two hundred eighty-eight different properties of which seventy-two were single family dwellings and twenty-four were two and three-flats.

The accuracy of this method of appraisal of the reproduction cost of residential buildings depends to a large extent upon the care in developing the base prices and actual application to specific properties. A proper study and analysis of the costs of erecting buildings of each type should result in fairly accurate base prices. The difficulty is encountered, however, in variation in actual construction from the picture and description given. In the first place, the description is not sufficiently detailed to enable accurate application of the manual to the specific property. In the second place, the additions and deductions given do not allow sufficient variation for actual conditions found. Finally, so many factors other than actual physical cost enter into the value of a residence that the manual furnishes but a small part of the data necessary in arriving at the actual value.

Due to the difficulties of application of this type of manual, its use is restricted to tax appraisal work where a large number of properties must be covered at a minimum cost and within a minimum amount of time. Its use is not recommended where appraisals are being made for loan purposes. A more detailed study of the property is necessary to arrive at greater accuracy.

The second group of building manuals is typified by that prepared by Cuthbert E. Reeves, M. A. I., for the Municipal Administration Service, New York City. Plate II shows a typical page from this manual. This is one of ninety-two pages of similar schedules for residential property. In

PLATE II

Residential Group—Single Family

Class 4

Basement: seven foot headroom; one-half plastered; good concrete floor; water closet
Roofing: Best wood or asbestos shingle or slate
Flooring: Good hardwood or linoleum on sub-floor
Attic: M and D floor; one-half sealed and partitioned
Doors and Windows: Heavy stock; good hardware; extra clear common glass
Interior Wall Finish: Good paper on three-coat plaster
Interior Trim: Good hardwood, well finished
Built-in Features: Kitchen cabinet; linen closets; book cases
Heating: Steam or hot water or hot air; automatic control; one inside chimney fireplace
Plumbing: Two bathrooms tiled; washroom on first floor; water closet in basement; laundry tubs; hat water supply; good fixtures
Lighting: Well equipped with extra outlets and switches; good fixtures
Unit Cost: Per square foot of ground area

	EXTERIOR WOOD SIDING OR STUCCO ON WOOD				ONE STORY FULL BASEMENT						R1-4-1 +B	
	DIMENSIONS IN LINEAR FEET											
	30		35		40		45		50		60	
	S.F. COST	TOTAL COST	S.F. COST	TOTAL COST	S.F. COST	TOTAL COST	S.F. COST	TOTAL COST	S.F. COST	TOTAL COST	S.F. COST	TOTAL COST
20	11.33	6800	10.67	7470	10.18	8150	9.80	8820	9.49	9490	9.03	10840
24	10.42	7500	9.82	8250	9.38	9000	9.03	9750	8.75	10500	8.34	12010
28	9.75	8190	9.21	9030	8.80	9860	8.48	10690	8.22	11510	7.84	13170
32			8.75	9810	8.37	10710	8.07	11620	7.83	12530	7.47	14340
36					8.03	11570	7.75	12550	7.52	13540	7.18	15510
40					7.76	12420	7.49	13490	7.27	14550	6.95	16670
	EXTERIOR WOOD SIDING OR STUCCO ON WOOD				1½ STORY FULL BASEMENT						R1-4-1.5 +B	
20	12.23	7340	11.55	8080	11.04	8830	10.64	9580	10.32	10320	9.84	11810
24	11.27	8110	10.65	6950	10.19	9780	9.83	10610	9.54	11450	9.11	13120
28	10.58	8890	10.01	9810	9.58	10730	9.25	11650	8.98	12570	8.58	14410
32			9.53	10680	9.13	11680	8.81	12690	8.56	13700	8.18	15710
36					8.77	12630	8.47	13730	8.24	14820	7.88	17020
40					8.49	13580	8.20	14770	7.97	15950	7.63	18310

addition, are tables furnishing adjustments for variations from standard specifications. By referring to this Plate, it will be seen that the description is much more detailed than in the case of the Cutmore Manual. The use of the Reeves Manual, necessitates more detailed inspection of the premises in order to determine the classification of the property being checked. It will also be noted that variation is made in the base price for variation in the length and width of the building. This results in more accuracy than the use of one base price regardless of the size or relationship of length to width. Due to the more detailed description of the property and variation made for size and deviations from standard, this type of manual will result in more accurate appraisal. However, it has the disadvantage of requiring more time for each property in order to obtain this greater accuracy. This type of manual overcomes the first two disadvantages listed for the Cutmore Manual, but still does not overcome the effect of conditions other than physical cost which makes all manuals impractical where great accuracy is required.

The third group of manuals is typified by that prepared by Geo. C. Kumbera for the Chicago Trust Company for use in connection with the appraisal of residential properties for loan purposes. Plates III and IV show the cost graph and variations for special features contained in this manual for residences. The base of Plate III indicates the cubic contents of the building under appraisal. The perpendicular represents the value in dollars for a standard residence. A detailed description of the standard residence is given in the manual. Plate IV furnishes adjustments to be made to the standard to allow for variations noted.

This type of manual requires computation of the cubic contents of each property to be appraised as compared to the use of area alone under the two manuals already discussed. It also has a more complete table of variations from standard in order more accurately to arrive at the value of a specific building. With the proper preparation of charts and tables of variations, the Kumbera Manual should result in the most accurate approach to building values by use of a manual. It has a place in appraising for loan purposes but due to the necessity of computation of cubic contents and allowance for variations from standard, it is not practical in appraising for taxation.

So far, only the computation of reproduction cost new has been discussed. To such reproduction cost must be applied allowances for physical and economic depreciation. For tax appraising, standard depreciation tables are necessary. The Cutmore Manual takes into consideration both physical and economic depreciation. A table is first given showing the per cent condition of buildings under a normal state of repair.

It is interesting to note that this table gives the per cent good rather than the amount of accrued depreciation. It makes possible the direct application to the reproduction cost to obtain the depreciated value of the building. This type of table is advantageous for tax work where a large number of items are involved. In addition to deductions for age, adjustment is made in the value for three other factors:

1. Depreciation due to improper maintenance or neglect.
2. Depreciation due to lack of utility or obsolescence.
3. Enhancement of value due to remodeling.

The allowance made for these three classes depends upon the actual inspection of the property and are in addition to the depreciation allowed under the above table.

PLATE III

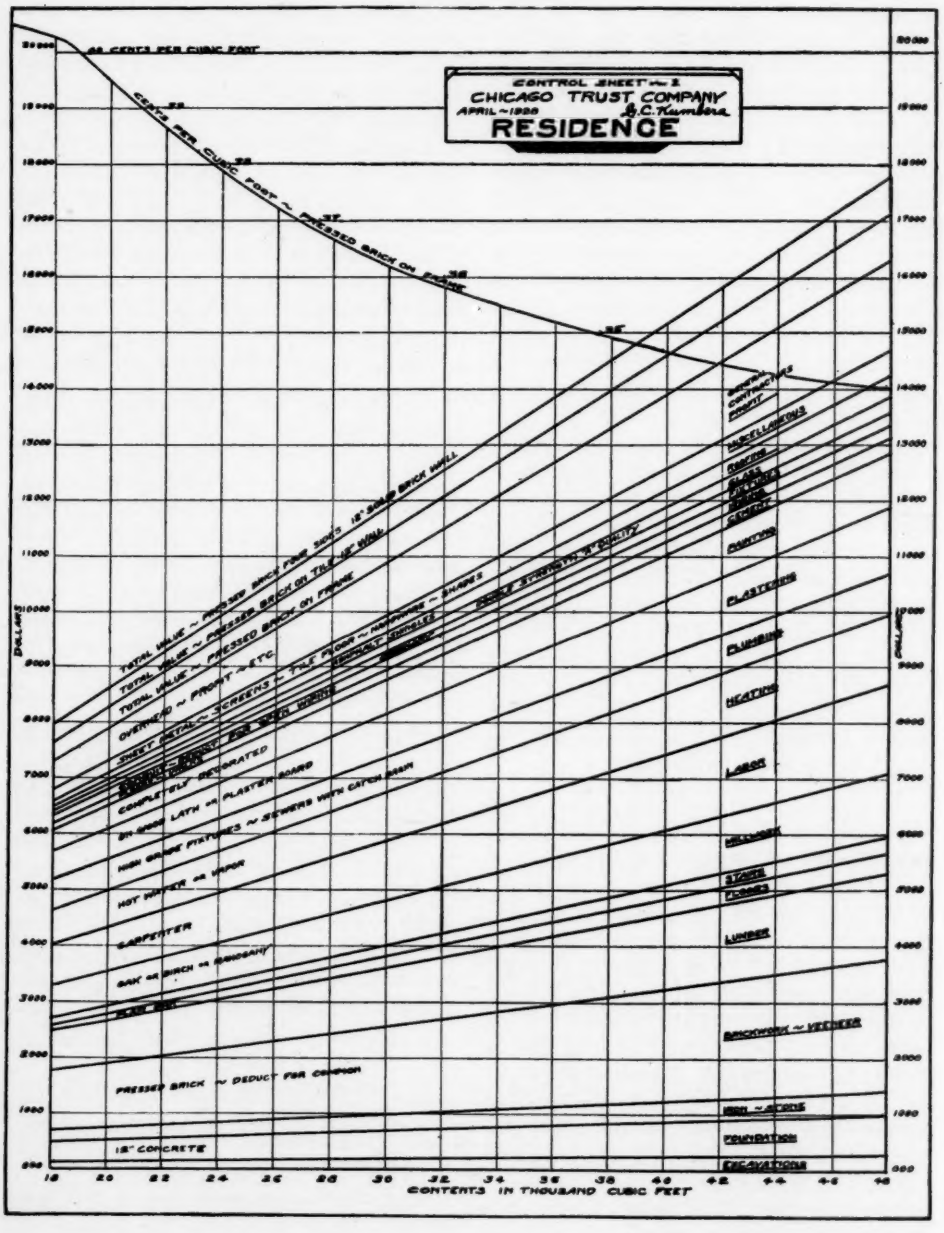

CONTROL SHEET No. 2
CHICAGO TRUST COMPANY
APRIL - 1920
By C. Kumlien
RESIDENCE
40 CENTS PER CUBIC FOOT
CENTS PER CUBIC FOOT - PRESSED BRICK ON FRAME
TOTAL VALUE - PRESSED BRICK ON TILE - 12" WALL
TOTAL VALUE - PRESSED BRICK ON FRAME
OVERHEAD - PROFIT - ETC.
SHEET METAL - SCREENS - TILE FLOOR - MANTELS - SHADES
COMPLETELY DECORATED
HIGH GRADE FIXTURES - SEWERS WITH CATCH BASIN
HOT WATER OR VAPOR
CARPENTER
OAK OR BIRCH OR MAHOGANY
PRESSED BRICK - DEDUCT FOR COMMON
12" CONCRETE
DOLLARS
CONTENTS IN THOUSAND CUBIC FEET
GENERAL CONTRACTOR'S PROFIT
MISCELLANEOUS
PAINTING
PLASTERING
PLUMBING
HEATING
LABOR
HARDWARE
STONE
FIXTURES
LUMBER
BRICKWORK - VENEER
IRON - ARCHES
FOUNDATION
EXCAVATIONS

PLATE IV

Bungalow or Residence

Special Features—	—One Story— Add	Deduct	—Two Story— Add	Deduct	—Two Apartments— Add	Deduct
Pr. Br. 4-S Solid Brick	1.8	0	2.5	0	2.0	0
Pr. Br. 4-S Veneer	0	0	0	0	0	0
Com. Br. Veneer	0	1.0	0	1.5	0	1.0
Com. Br. Solid Wall	0	.5	1.3			.5
Frame or Stucco	0	4.0	0	5.0	0	6.5
Pr. Br. 4-S on tile	1.0	0	1.3	0	1.0	0
Hammond		1.0		1.0		1.0
Gary		1.0		1.0		1.0
Waukegan		1.5		1.5		1.5
Rockford		1.5		1.5		1.5
Decatur		2.0		2.0		2.0
Bloomington		2.0		2.0		2.0
Stucco on tile		2.0		2.5		3.2
Glazed Porch, 7x24, 1 floor	$80					
Fireplace and Chimney	$230.00		$285.00		$285.00	
Extra Hearth	100.00		100.00		100.00	
Extra Bathroom	350.00		400.00		400.00	
Extra Toilet	200.00		215.00		215.00	
Tile Wall, $1.50 sq. ft. avg.	210.00		210.00		210.00	
Colored Tile Wall	$1.80 sq. ft.		$1.80 sq. ft.		$1.80 sq. ft.	
Old Style Bath Fixt.	$75 per bth.		$75 per bth.		$75 per bth.	
Roofing, Slate	2.9 cu. ft.		2.0 cu. ft.		2.0 cu. ft.	
Roofing, Clay Tile	2.6 "		2.0 "		2.0 "	
Roofing, Cement Tile	1.2 "		0.7 "		0.7 "	
Roofing, Asbestos Sh.	1.0 "		0.7 "		0.7 "	
Sheet Metal Copper	0.4 "		0.4 "		0.4 "	
Lath Metal Throughout	1.3 "		1.4 "		1.4 "	
Lath Metal Ceilings	0.28 "		0.4 "		0.4 "	
Plastered Basemt. Ceilings	0.4 "		0.3 "		0.3 "	
Weather Strippings	0.3 "		0.3 "		0.3 "	
Pr. Br. Two Sides	1.0 "		1.0 "		1.0 "	
Stucco Second Story—	Brick First Floor		$3 Lin. Ft.		$3 Lin. Ft.	
Arch. Plan and Suprvsn.	5% of Tot.		5% of Tot.		5% of Tot.	
Insulation 100%	0.8 cu. ft.		0.6 cu. ft.		0.6 cu. ft.	
Cedar Closets	$2.00 sq. ft.		$2.00 sq. ft.		$2.00 sq. ft.	
Steam Heat		1.0 cu. ft.		1.0 cu. ft.		1.0 cu. ft.
Ordinary Furnace		1.5 "		1.5 "		1.5 "
Holland Bd. Oak or Equal		1.0 "		1.0 "		1.0 "
Softwood Tr. (Cheap Drs.)		1.0 "		1.0 "		1.0 "

DESCRIPTION OF STANDARD BUILDINGS

Bungalow—Good Individual building—not one of group; shirt front; hot water heat; good plumbing fixtures with full apron tub, pedestal washstand or equal; apron sink with swing faucet, two laundry trays; hardwood floors, tile in bath, gum and hardwood trim, birch doors; asphalt shingle roof; average job of painting and decorating. Use 20 ft. height.

Two Flat—Same type as bungalows; shirt front; 12 in. wall to second floor joists, 8 in. from there up, or Pr. Bron frame; tar and gravel roof. Use 30 ft. height.

Two Story Residence—Asphalt shingle roof, Pressed brick four sides on frame (See allowance for residence having solid brick walls 12 in. thick first story, 8 in. second story). Use 30 ft. height.

General—Give unexcavated, one-story sunbays height of 17 ft.; other same heights as building.

One and One-half Story—Interpolate between 1 Story and 2 Story Buildings.

PLATE V

Depreciation Data and Its Uses

The value of a building is considered as the amount which it adds to the value of the land upon which the building is constructed. Thus the value of the land and building represents a fair market value of the property under consideration.

It is apparent that in some cases the building will add very little to the value of the land, due to the following factors, which must be taken into consideration in establishing the value of the building.

1. Depreciation due to age and physical deterioration.
2. Depreciation due to improper maintenance or neglect.
3. Depreciation due to lack of utility or obsolescence.
4. Enhancement of value due to remodeling.

The value of a building erected within the last few years is very close to its actual cost of replacement or construction.

Under normal conditions a building is worth its cost of construction, losing value because of the destructive influence of age. In the age factor is also reflected the fluctuation of value due to the economic law of supply and demand of similar properties.

In establishing the percentage of depreciation for condition due to age it is necessary to determine the approximate age of the building. This factor of depreciation is considered a normal rate for physical deterioration, assuming that the building has been kept in a normal state of repair.

The following table represents the per cent of condition or per cent good, but not the per cent deductible.

Age	% Good	Age	% Good	Age	% Good	Age	% Good
1	98%	11	83%	21	71%	31	61%
2	96%	12	81%	22	70%	32	61%
3	94%	13	80%	23	69%	33	60%
4	92%	14	79%	24	68%	34	59%
5	90%	15	78%	25	67%	35	58%
6	89%	16	77%	26	66%	36	57%
7	88%	17	75%	27	65%	37	56%
8	86%	18	74%	28	64%	38	55%
9	85%	19	73%	29	63%	39	54%
10	84%	20	72%	30	62%	40	53%

These are the basic figures for buildings in a normal state of repair and good condition. This schedule is based on a rate of approximately 2% per year for the first five years and 1½% per year on a reducing balance basis up to forty years, which is considered normal for general building depreciation. This table might be termed an economic curve for building depreciation. This applies to buildings up to about forty years after which the condition of the building alone governs its value. The rate of 2% and 1½% per year apply very well for buildings up to ten years of age. Between ten to forty years certain elements or conditions affecting the value of the building should be considered. These special conditions affecting the depreciation are outlined in the following paragraphs and the amounts fixed within certain limits.

Many other tables are available that attempt to reduce to rules the effect of depreciation on value. For tax appraisal work, such rules are necessary to insure uniformity. For other purposes, actual inspection of the property is necessary. Age does not always result in lower values. In certain New England towns, age enhances values. The maintenance of a property and money spent in rehabilitating the building are all important. Only by detailed inspection, is it possible to determine the condition of a building, and such detailed inspection is necessary for all purposes other than taxation.

Limitations

It must be kept in mind at all times that a manual, no matter how well prepared can deal only with the physical value of a property. Even for this purpose, it requires intelligent application. In the hands of an uninformed, untrained individual it will be valueless. No manual can take the place of judgment. Real estate from its very nature requires that judgment be exercised. No manual can furnish a ready rule for figuring the accrued depreciation of a residence. Certain tables are furnished but they can not measure the intangible factors that so often fundamentally affect the value of a residence. Improper layout and design are much more important and yet from their very nature can not be reduced to rules.

Manuals, however, are of practical use in tax appraisal work and are recommended for that purpose. Care should be taken in their preparation and application to insure the greatest accuracy possible. In appraisal for loan purpose, manuals are of some value in computing reproduction costs of buildings and applying certain standard depreciation tables to such costs to arrive at tentative values. Such tentative values represent the maximum value of such buildings from a physical viewpoint and are subject to adjustment for design, condition and relation to the district which can only be made after detailed study of the property involved. Manuals have no place in the appraisal of residential properties for individual clients except as one part of the data program to be checked by more detailed study of building costs.

In closing, it might be well to mention the argument frequently forwarded against the use of manuals in arriving at building costs—that they do not result in accurate costs—that detailed take-off of quantities and pricing is necessary. Under proper preparation, and application, manuals should result in costs sufficiently accurate for all practical purposes. Detailed quantity estimates and pricing of such estimates can not insure much greater accuracy when it is realized how much variation exists in contractor's bids for the same job. All these bids are based upon detailed estimates; and the bidder expects to make a profit on the job. In addition so many other factors affect the value of the building, that slight variations in reproduction cost will have only minor effects on the final value obtained.

Needless to say, a manual cannot reflect market conditions since it is prepared as of a certain date and reflects only cost conditions as they existed at that date. Some allowance can be made for changes that have occurred since the date the manual was prepared but allowances can only be made for variations in cost. Market conditions are far more important in estimating the final value; and such conditions can only be indicated, never measured in a manual.

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Current Appraisal Technique

By HENRY MUSCH, JR., M.A.I.

THAT the technique of appraising real property will develop to the point of scientific exactitude must be considered a fallacy. Yet, some appraisers seem to be losing sight of the fact that their work will ever be more or less empirical, which fact *tends to destroy anything attempted from a standpoint of precision.* This observation is called to mind when we see embodied in appraisal reports such things as *detailed* forecasts of future rents and operating expenses. Such forecasts are dangerous. The attempt to reduce future earnings (in quite some instances based on existing term leases which, because they are broken down in periods of deflation, have proven unsound as a basis for future prediction) to a tangible and usable basis has resulted in a process as hazardous as it means to be exact. Still, we cannot say that it has not been "thought-provoking". The following suggestions are submitted—not as a final word on a complicated subject, but rather as an opportunity for constructive thinking with the expectation in mind that very possibly they might serve as a sort of groundwork for the development of a more simple and less dangerous method of dealing with the future.

After all is said and done, we are interested in nothing but what will be the *average* income and the *average* expenditures during the remaining economic life of the property under appraisement. The average net income will determine the yield (capitalization). As we are interested only in averages why, then, do we attempt to project detailed rentals and expenditures *so exactly* into a not so exactly determinable future? Why not deal with averages comparably adjusted to averages of the past?

To illustrate the point, I will arbitrarily use rental indices compiled by the *National Industrial Conference Board* as being the average for the Nation. A similar set of indices can be prepared to reveal your local trend and, no doubt, already forms a part of the equipment of the thorough appraiser. The N. I. C. B. rental trend information indexes as follows:

1913	100.0	1918	111.5	1923	164.2	1928	153.9
1914	94.7	1919	122.6	1924	174.5	1929	151.1
1915	94.7	1920	144.8	1925	170.9	1930	147.0
1916	96.2	1921	160.4	1926	166.3	1931	135.3
1917	99.5	1922	157.4	1927	160.5	1932	118.8

The *average* of these indices for the twenty years shown is 136.2, which corresponds very closely to the index of 1931 (135.3). Using local data, it may be found that the average will correspond more closely to some other recent year. But, in any event, we are likely to be able to connect that average to some year which we have experienced — we will know a base from which to work.

How, now, are we going to adjust for the future, *based on past experience*? Does it seem feasible to base, for example, a property's future average of rentals (income) on the 100% rental of that year closely indicative of the *average* for the past twenty years, discounting those rentals some 15% for the next twenty years, or perhaps some 18% to indicate the expected average for the next fifteen years (these percentages are discretionary and will reflect the appraiser's opinion, founded on economic precept, of future expectancy), and further discount from the rental average for vacancy and income flow? Can we not make a similar prediction of the operating expenses, based on past average behaviors of, perhaps, Commodity Prices, Materials Costs, and Wage trends? Is it more practicable to use such a method of projecting into the

future, rather than use a method which projects *so exactly* for a number of years or periods, and which may or may not satisfy *so exactly* in future experience?

Keeping in mind that appraisers apply capitalizing percentages of more than six per cent in the far greater portion of instances, it has been interesting, through some original computations, to probe into just what yields are to be expected from real property generally. If data, as compiled by the Governmental Departments and independent agencies, can be taken as criteria of **relative** values, some curious things are brought to light. While we cannot expect results of more than relative accuracy from the data available, still I think, we can presume that a **general trend** will be evidenced.

Should we divide Construction Cost indices into our Rental indices, it seems probable that we will obtain a series of indices that will reflect the relative trend of real estate investment yields. Arbitrarily, we will use for illustration, those Construction Costs indices prepared by the **Engineering News-Record.** They follow:

1913	100.0	1918	189.2	1923	214.1	1928	206.8
1914	88.6	1919	198.4	1924	215.4	1929	207.0
1915	92.6	1920	251.3	1925	206.7	1930	202.9
1916	147.4	1921	201.8	1926	208.0	1931	181.4
1917	181.2	1922	174.5	1927	206.2	1932	157.0

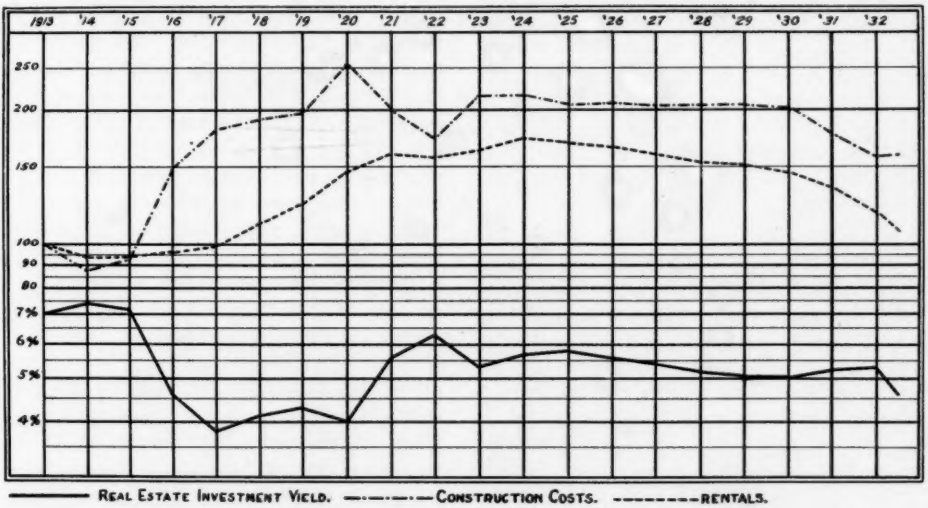
Through calculation, we derive a series of what may be termed Real Estate Investment Yield indices:

1913	100.0	1918	58.9	1923	76.7	1928	74.4
1914	106.9	1919	61.8	1924	81.0	1929	73.0
1915	102.3	1920	57.6	1925	82.7	1930	72.4
1916	65.3	1921	79.5	1926	80.0	1931	74.6
1917	54.9	1922	90.2	1927	77.8	1932	75.7

In order better to visualize these indices, they are projected on the accompanying chart as transmuted to a 1913 base of seven per cent. This figure is discretional, presuming it to reflect a possible average rate of return (for the purpose of making comparisons) in that year. The **relative trend** is easily read from the chart.

If appraisers had a similar chart before them in 1928 and 1929, would appraised valuations in those years have been as high as they were? We will have to admit that the chart reflects present conditions, through the fact that there is indicated a 1932 yield of but 5.30% (relative to the presumed 7% base yield of 1913), somewhat below the considered normal interest rate of 6%. This yield has diminished considerably during the first half of the present year (1933), the average for the first six months figuring but 4.62%.

The question also arises, through an obvious **leakage** from employed capitalization rates to the yields as presumed on the chart, whether we are capitalizing at rates high enough to reflect the true risk of ownership.



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What Price The American Home?

By CHARLES B. SHATTUCK, M. A. I.

AN appraisal is an estimate of a situation or of many situations. At this particular moment in time, it seems, nearly every thinking individual is making an effort to appraise the signs of the times; in order that he may render his estimate of the future. Right now, as never before in the history of the world, mankind as a whole, has been brought to a pause; is turning back to look down the years over which the race has come in order that we, of today, may face about and go on with renewed hope and vision for the future.

The great leaders of history — though never known as such — have almost without exception been men who went to the bed-rock of human hopes, ideals, and ambitions. They were men who accurately appraised the whole situation, then marshalled and commanded the potent factors and forces of their day because of the fearlessness with which they dared to hazard their opinions and conclusions as to the future. While their fellow men were hoping and guessing — they had appraised the situation, they knew and were creating. While others, unthinking, believed all they heard and all they saw; these men we read of—as great—maintained their mental poise, analyzed and grasped the situation, disregarding all they heard and believing very little of what they had seen. Secure in the confidence of their sound judgment, they gave their contemporaries vision, with action and vigor in back of it.

On March 4th, a man who will go down in history as among the greatest — Franklin D. Roosevelt — said, "Where there is no vision the people perish." By this he means common honesty and vigorous action based on analytical ability and sound judgment. An appraisal, if you please, to certify the true value of American Homes and our social order as opposed to "money-changers" and their fear-ridden prices.

Vision

The first qualification of the appraiser who would answer the great question, "What Price the American Home?" is vision (meaning common honesty, analytical ability, and sound judgment). He must grasp whole situations and maintain mental poise. His first duty is to analyze, weigh, and correctly estimate all of the many factors and forces which influence the particular home he is appraising. The house you can *see*, the local prejudices, racial characteristics, and customs of the people living within the neighborhood you must *uncover*. You as an appraiser of the American Home must see more than the local situation. You must go to the bed-rock of the past and present for finally you must take: population, location, setting, surroundings, transportation, back country, climate, topography, water supply, soil, public improvements, expected improvements, government, law enforcement, regulations, schools, churches, civic spirit, zoning, city planning, character of people, racial influences, habits and customs, noises, odors, nuisances, city growth, recent sales, potential value, supply and demand, changes in the value of money, assessed value, labor and employment, rentals, taxes, insurance, repairs, depreciation, obsolescence, restrictions, easements, agreements, leases, construction, architectural design, arrangement, light, ventilation, entrances, age and condition, lot area and utilization, the social en-

vironment and standard of living, legislation, public opinion and the human element, and, weighing each, resolve them into one final figure: So many dollars—which valuation must accurately express, in terms of money, the present worth of all the future benefits which will most likely exist in the ownership of the particular home appraised.

Upon what fundamentals shall the appraiser of residential property base his analysis of each of these in resolving all into the common denominator —money? It is at this point that the appraiser is called upon for a complete understanding of the great economic underlying forces which control all values. To the extent of his knowledge concerning these aspects of the problem, his final judgment will be either a guess or an appraisal.

Economics and Appraising

Much time and a great deal of thought and effort have been given to the development of standard methods and questions of proper procedure in the appraising of residential property. In fact, we have developed standard methods and proper procedure to such a fine point that we have all but lost sight of the great fundamental of all real estate appraising either urban or agricultural, garden spot or desert, skyscraper or hovel; namely—the fact that the Science of Economics precedes the Art of Appraisal just as surely as does the Science of Anatomy precede the Art of Surgery; or the Science of Astronomy precede the Art of Navigation.

The various aspects of appraising as I state them here today are not my own thoughts nor conclusions; they are the result of study of the beliefs, opinions, and conclusions of many noted Realtors, appraisers, and economists. I merely bring to you this result coupled in their words and mine, trying constantly to bear in mind that each student of science owes much to all those who have gone before, as well as to those of today with whom he debates and collaborates.

Science has its origin in the endeavor of mankind to answer the eternal question—"Why?" In answer to this eternal question, the appraiser of American Homes, is ever on the alert to detect agreements and differences among things. The banker, the butcher, the baker, the candlestick maker, the layman, the untutored see a thousand and one phenomena, but all are a jumbled mass. The appraiser sees the same phenomena, but subjects these to law and order.

The real estate broker, or Realtor, incapable of comprehending beyond his five senses will never become an appraiser of residential property. A sixth sense is required; that of the detection of hidden relationships. In addition to this sixth sense, the American Home Appraiser must have had active and wide experience coupled with a judicial mind and a genuine desire to learn through constant observation and study. He must have a knowledge of application which converts dead facts into constructive thought.

The appraiser of residential property who cannot bring to his aid the assistance of liberal training, can grasp facts but not situations, can solve isolated problems, but cannot deal with them in the broad aspect of their relationships with current economic events.

An economic problem is always the result of a combination of forces. An appraisal of any American Home is a consideration of a combination of forces and therefore is an economic problem requiring mental power sufficient to marshal forces to a common

end, and sufficient mental balance to see all the forces in their proper state of poise; for if any force is not given its proper weight, the conclusion will be either only partially correct or wholly wrong. The appraiser who would approach his residential valuation problem, with proper mental poise, must first put himself in command of the general principles of the Science of Economics. In valuation problems, the appraiser must be fully aware of and understand the causes and effects of: desire and desirability; market and distribution; price and value; supply and demand; money and its purchasing power; organization and production; population and the supply of labor; labor and machinery; wages and capital; interest and rent; credit and banking; government and taxation; political trends and legislation.

I might say at this point that we can estimate, within a fair degree of accuracy, what men are apt to do, science can even foretell the weather and accurately forecast an eclipse of the sun and moon; but none of us can foretell the acts of Congress.

Theory and Practice

Now, by this time, I know many of you are convinced that all I have said is well enough in theory and are asking "will all these ideas work in practice"? My answer is that it all depends upon what you understand by the use of the words "theory" and "practice".

It is a commonplace though mistaken belief that something is well enough in theory, but that it will not work in practice. One is in error who would contrast theory and practice as the impractical versus the practical. A theory is a provisional or tentative formulation of a law. That which is true in theory *must* be true in practice. It takes investigation and sound reasoning to formulate a true theory because *it must fit the facts.* Theory and science cannot be divorced, for theory explains phenomena. Theory and practice hold the relationship of explanation and execution.

Certainly then, an appraisal report on an American Home, to be of practical use to the party for whom it is rendered, must touch on the theoretical in order properly to support and explain the opinions, conclusions, and valuation of the appraiser. An appraisal report must be a written document, easily understandable; it must set forth the investigation made; it must contain sound reasoning and state clearly the theory upon which the valuation is executed.

Though it is only a "shanty in old shanty town"—still it is somebody's home—and for this reason the appraisal of the American Home is an extremely complex problem.

In approaching the problem, the appraiser must bear in mind that even though it is only a "shanty", nevertheless, its foundation goes down to the center of the earth and its gables are hung in the sky. Because of this great human element the appraiser is of necessity somewhat "theoretical" for specific data and dependable information are mighty hard to find. Positive and counteracting influences are often at work and the home appraiser is called upon to state what seems to be a sound and reasonable explanation of how things would be if these various influences could be measured and allowed for.

I hazard the opinion that the lesser the market value of a home—as expressed in terms of money—the greater is its value to the owner thereof; in which I consider value as being the result or fulfillment of a genuine desire or an absolute need.

Well-to-do people, who in the matter of the selection of a home, are concerned more with their personal desires than with their pocket books, often consider a home as just another place to hang one's hat. To the average individual who of necessity must work for a living, a home, once acquired, is almost dearer than life itself.

The purpose of this discussion is not to explain a method of procedure—any bank, mortgage, or building and loan company can furnish such. The purpose of this discussion is to point out that after all the figures are multiplied, added, divided, and subtracted to reach a total figure, which in reality means nothing at all; the final arbitrator of "What Price the American Home" is a series of complex considerations, the more important of which I shall now touch upon:

Employment

Our first and primary consideration is employment, for it is the most important single factor affecting the demand side of any possible real estate market wherein homes might be sold.

Demand must not be confused with desire. The poor man may desire a mansion with as much intensity as if he were a millionaire but he could make no demand for it. Desire must be coupled with purchasing power before it can become demand. A group of impoverished people may besiege a bakery for bread, and yet be unable to demand a single loaf. One must have purchasing power before he can demand a meal, or any other salable thing on the market.

Employment is the only means whereby purchasing power comes into the hands of most American people. Unquestionably thousands of people without employment, and hence without purchasing power, earnestly desire to own a home of their own—but without employment they are an adverse factor on the demand side of the single family home market, they are just buyers unable to buy.

My observation as a real estate broker and an appraiser is that as employment goes, so goes the market value of the average American Home. Let unemployment set in affecting the people owning homes in a particular class of neighborhood and almost immediately you can observe that less money is expended for maintenance of the houses and yards, depreciation at once becomes visible, the standard of living drops and the social environment retrogrades. Ultimately public opinion lowers the market value estimate of all homes within the neighborhood affected by the unemployment.

When the market price receivable for stocks and bonds tumbles, the market value of mansions and better class homes tumbles. When the national income drops the market value of the single family home drops in almost direct proportion. For illustration: the national income in 1929 was approximately eighty-five billion dollars, in 1932 forty-five billion dollars, or roughly a 50% decline. The same ratio exists in the market price receivable for the American Home for the $8,000 home of 1929 is the $4,000 home of 1933.

Employment means income which in turn means the ability to buy and properly to maintain a home. With employment stabilized, you will find the market value of single family homes stabilized. With unemployment on the increase, you will find residential market prices on the decrease. It is my candid opinion that not until millions of men have gone back to work, at a wage in keeping with the rightful standard of living of the American people, will there be any profitable market for the average American Home,—despite newspaper

reports to the contrary. Realtors, watch employment figures and not the "ticker-tape" if you would determine "What Price the American Home". If you would estimate the reasonable market value of a single family home, determine first the employment situation in relation to the particular class of residential property being appraised.

Standard of Living

The standard of living as heretofore stated is directly dependent upon the employment situation but in itself must be considered separately, for while people might be temporarily unemployed they would nevertheless stubbornly resist, to the very limit of their savings, any lowering in their accustomed standard of living.

Thus the ability of the people, in any particular residential neighborhood, to maintain their accustomed standard of living through periods of slack employment is a matter of real moment in the proper estimation of the market value of the homes in that district.

The consideration of the standard of living has to do with the quantity, quality and duration of employment or income to the home owner; from outside sources and by the application of which the market value of the residence is maintained.

Cash is king where the standard of living is concerned, for the pocketbook dictates the number of cars we shall not drive and the mansions we all desire, but few of us shall ever own. It seems that mankind has learned more or less to master and control his social environment, but his standard of living is still the play thing of the gold standard, the monetary policies of the nations of the world, and unemployment.

In the actual estimation of the market value of a single family residence, the standard of living of the people in the neighborhood considered in relation to their ability to continue to maintain that standard of living, is a matter requiring the most careful attention on the part of the appraiser. The question is: Is the supposed standard of living secured by actual employment, or based upon sound and solid incomes, or is it just plain "nigger rich"?

These are the matters to consider under the standard of living: Source of incomes and their amounts and probable dependability; The relation of the area of land and homes to such; The reasonable probable number of possible home owners rightly within the particular standard of living as compared with the total supply of residences within the situation being evaluated.

Social Environment

The social environment has to do largely with the types of individuals who live within a residential area. Hereunder we consider the local prejudices, racial characteristics and customs of people living within the neighborhood.

To the layman, people are mostly just people and he gives little or no thought to the slight differences in the quality of the various classes of people. The appraiser on the other hand must constantly be on the lookout for such differences in the classes of people, for the market value of the single family home is greatly affected by the social aspects surrounding the home.

The appraiser observes the general trend of a specific residential neighborhood as a succession of classes of people with each class striving to reach a standard of living and achieve

a social environment limited only by its purse.

As the social environment of a residential neighborhood is bettered, the market value of the homes therein will rise, and on the other hand, should even so much as one family of questionable racial characteristics or customs move into a neighborhood, the market value of such single family homes will react almost at once to this adverse influence.

In America the spirit of "keeping up with the Jones" is a real factor to contend with in the evaluation of homes. If we are employed and are capable of maintaining a higher standard of living than our present social environment permits, by reason of neighborhood prejudices and customs, we are unconsciously attracted to these other neighborhoods which more nearly contain the elements of the social environment our standard of living makes it possible for us to enjoy. Herein, chiefly, lies the source of appreciation and depreciation of all residential districts.

To estimate and judge the social environment of neighborhoods in relation to the justified standard of living based on the degree of employment and income to the people within the neighborhood is an accomplishment in the science of appraising far more to be desired than the mere ability to measure accurately the number of square feet in the houses. The appraiser who cannot judge human characteristics, prejudices, and customs will fail in the appraisal of the single family residence.

The physical aspects of the social environment are but an outward expression of the standard of living of the homes within the neighborhood; schools, churches, playgrounds, parks, golf courses, libraries, business subcenters are some of the countless visible indications of the probable social environment within the district. The inevitable inter-relationship of all these visible indications to the quality of classes of people is a very decided and determining element in the estimation of the market value of the home.

Governmental Costs

The direct influence of governmental costs upon single family residential values is a fact so much discussed today that I hardly need touch upon this important element of value. Taxes are, today, the white man's burden; and, unless I am seriously mistaken in my judgment, they will continue to be so.

Increased costs of government and special assessments go hand in hand with better standards of living and finer social environments for the people as a whole. Taxation is safe and desirable only to the point where it does not interfere with the profitable employment of the people as a whole and only when the costs of government pass this point is there danger to the market value of homes.

The appraiser must be keenly attuned to what constitutes adequate and proper governmental costs in order that he may judge correctly the effect of these upon the desire and ability of people to own homes of their own.

It is an observed fact that special assessments have ruined many neighborhoods, in a market value sense, while on the other hand they have in a greater number of cases created such value.

The ability of the degree of employment, the standard of living and the social environment to absorb governmental costs is a matter of the utmost importance for the appraiser of the single family home to determine.

Restrictions

Restrictions are but a guard against the natural tendency of succession of classes of people into the use and occupancy of residential neighborhoods of different degrees in standard of living and social environment.

Restrictions retard otherwise natural encroachments. In some degree they dictate the social environment and aid in the maintenance thereof. In the newer residential sections deed restrictions are an important element of value for they indicate the probable trend and quality of occupancy. Also they govern to a considerable extent the standard of living through the actual building cost restrictions imposed upon the land.

The relationship of the restrictions imposed to the general location of the neighborhood and their conformity to the warranted economic trends therein constitute a real factor in residential valuations.

Likewise zoning laws have more or less the same effect, but only in so far as a succession of uses might be concerned for they can in no way limit the succession of uses by classes of people — which infiltration can only be retarded by occupancy restrictions which run as covenants with the land.

Restrictions and zoning must be carefully analyzed and their ultimate advantage or disadvantage determined. I here say that unquestionably hundreds upon hundreds of opinions of market value on homes have been rendered by appraisers without any investigation as to the restrictions or zoning. How any appraiser could state an opinion of the market value of a home and not be thoroughly familiar with these important items of value is beyond my ability to comprehend.

City Growth

Another element of importance in the valuation of the home is the growth of the city wherein the home is located. City growth in all its phases must be very seriously considered for it indicates the advantages or disadvantages of restrictions and zoning. City growth determines the relative value of various similar districts, it affects materially the governmental costs, influences to a very marked degree the tendency on the part of various classes of people to move from one residential section into another, and is the best indicator of trends and possible future encroachments.

City growth is urban and suburban and this paradox must be weighed in the valuation of even the smallest and cheapest of homes.

That city growth is greatly affected by transportation is so evident that it is hardly necessary for me to point out the extreme importance for careful consideration and study of the influence of all types and classes of transportation upon residential values.

Public Opinion

In the matter of market value assigned any residence the final court of appeal and the truest test of the worth of your estimate is found in public opinion.

Give a dog a bad name and he keeps it, is an axiom that every appraiser should have in mind when considering the value of the single family home.

Public opinion in its own way rightly or wrongly interprets the relationships of all of the many complex foregoing considerations; and the estimate of the community as a whole of the worth of any residential section is of far more importance than that of any individual or social class.

I might say when appraising the single family home "be sure and keep your eye on the ball" and the ball in this case is Public Opinion. How it rolls determines the amount of fine

balancing you will have to make in the rendering of a final opinion of fair market value of the home.

I submit for your careful consideration the thought that the true measure of the fair market value of the American Home is not what some "sharpshooter" will offer in these times of unfathomable world-wide economic distress. Nor is the true measure of value to be found in depressed and discouraged public opinion brought about by wholesale liquidation on the part of mismanaged, unworthy, and incompetent financial institutions which in order to save their so-called "gold bonds" have ruthlessly sold their customers and their country into bondage.

Rather is the true measure of the fair market value of the American home. *The Rightful standard of living of the average American family* — which thank God, is right now being reestablished in spite of the "sharpshooter" and the foreclosures. Once again the American people are being taught that greatest of all human lessons—cooperation with consideration and that there is no substitute for a home all of your own, hard work, and common sense.

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Speculation In Suburban Lands

By ERNEST M. FISHER

AROUND the fringes of all urban areas of any size lies the territory into which the distinctly urban uses of land must expand as the community grows. This area has very appropriately been called the "penumbra" of the urban community.[1] It originally consists of lands in distinctly rural uses such as agriculture or forestry. As the circumference of the urban community expands and approaches this land, the uses to which it is put undergo a change. Extensive farming gives way to truck gardening or to golf or other recreational uses. In anticipation of the arrival of the more intensive urban uses, the value of the land increases and taxes mount proportionately. Here and there patches are definitely withdrawn from the rural or semi-rural uses, platted in small units served by common means of access, and offered for sale as building sites. Frequently the public utilities necessary for urban uses are at least partially installed and completely promised, plans are presented for the development of such community activities as schools and churches, and houses and business premises are built.

These patches of development are widely scattered through the penumbra of the urban area, frequently without relation to one another or to the urban community as a whole. They are isolated nuclei which gradually grow by the process of accretion, absorbing more and more of the penumbra until their borders meet. When the whole area has been absorbed into one or the other of the nuclei, it becomes a part of the original urban community.

Thus, the advance of urban uses into the penumbra is by no means a steady or uniform one; the urban uses do not, as might be supposed, creep out into the penumbra at an even pace. They sometimes leap over considerable stretches of territory to establish themselves at spots removed from the fringe of existing uses, leaving the intervening area to be filled in slowly.

There are, then, two distinct phases of the growth of urban uses in the penumbra: one is the expansion stage during which the new nuclei are being established, and the other, the filling-in stage during which the interstices between nuclei are being absorbed. There is little information regarding the length of time which elapses in these phases, but such scant data as have been compiled indicate that it is between fifteen and thirty years. It probably varies from community to community as the influences affecting the growth of the community vary. In terms of platting and sales activity, the data possess a high degree of periodicity, reaching high points during the period of expansion and dropping abruptly to extremely low points. As absorption of the interstitial areas proceeds, platting and sales activities rise very slowly until another period of expansion arrives. Thus the data reveal marked cyclical characteristics, but the cycles are longer than in the more familiar economic series.

This most interesting study was published in the March, 1933 issue of the "American Economic Review Supplement" and is reproduced here by special permission. —Editor.

1See Herbert D. Simpson and John E. Burton, "The Valuation of Vacant Land in Suburban Areas," Studies in Public Finance, Institute for Economic Research, Chicago, 1931, p. 2.

The most pronounced peaks in this activity closely coincide, however, with the peaks in general business activity; and the most abrupt declines in platting activity have occurred at the time of our severest business depressions. For example, platting activity in the Cleveland metropolitan area reached great peaks in 1856, 1873, 1891, 1903, and 1926; it fell to the lowest points in 1861, 1878, 1896, and 1930. Activity in the Chicago area reached previously unprecedented heights in 1837, 1874, 1891,[2] 1910, and 1926.[3] Milwaukee experienced booms in 1837, 1857, 1875, 1892, and 1926;[4] Toledo in 1855, 1874, 1890, 1916, and 1925;[4] Alameda County (San Francisco), California, reached peaks of subdividing activity in 1877, 1891, 1908, and 1925;[5] Detroit's subdividing peaks have come in 1836, 1857, 1873, 1891, 1916, and 1925;[4] those in Grand Rapids, Michigan, in 1857, 1872, 1890, 1906, and 1926.[4] Thus all the major crises since 1850 have been accompanied very closely by peaks and crises in subdividing activity.

It is during a relatively brief period when subdividing activity is reachng its peak that the sorties far into the penumbra are made and the new nuclei established; during the long period of slight activity, the interstices are slowly filled in. The period of explosive expansion precedes or coincides with the rise of general business to a crisis.

This period of expansion has been consistently accompanied by widespread speculation in suburban lands. In the earlier history of the country, speculation in urban and suburban lands centered principally in projected cities laid out, at least on paper, in locations which were "destined to be great emporiums of trade, industry, and commerce."[6] Recently something of the same sort of speculation took place in Florida; but for the most part, during the present century and much of the last half of the preceding one, speculation in suburban land has centered in the penumbra of already well established communities.

In these areas speculation takes two distinct forms; the first is speculation in acreage or accommodation land; and the second, in subdivided lots. In both these forms, speculation is difficult to identify with certainty; for as in other types of transactions, the intent of the purchaser is probably the basis of distinction between speculation and investment.[7] Thus in many instances the same individual in the same transaction may be at one time a speculator and at another, an investor. To the extent that the motive in purchasing is gain from the enhancement in value, the transaction is speculative; to the extent that income rather than increment in capital controls, it partakes of the nature of an investment.

As a matter of fact, the purchase of acreage or accommodation land is in most cases almost wholly speculative. In periods of expansive booms, the price at which acreage sells increases with sometimes astonishing rapidity. In such cases, it is easy to interest individuals with considerable wealth in speculating on such increases. The usual procedure is to form syndicates for the purpose of buying tracts of land in

2An interesting description of the boom in Chicago in 1891 and 1892 will be found in H. Morton Bodfish, "Real Estate Activity in Chicago Accompanying the World's Fair of 1893," **Journal of Land and Public Utility Economics**, Vol. IV, No. 4 (November, 1928), p. 405.

3These statements are based upon data from an unpublished source.

4See Ernest M. Fisher, "Real Estate Subdividing Activity and Population Growth in Nine Urban Areas," **Michigan Business Studies** (1928), Vol. I, No. 9.

5See Lewis A. Maverick, "Cycles in Real Estate Activity," **Journal of Land and Public Utility Economics**, Vol. VIII, No. 2 (May, 1932) p. 191.

6For a description of some of the speculative ventures in land during the early history of the country, see A. M. Sakolski, **The Great American Land Bubble** (New York, 1932).

7Cf., Charles O. Hardy, **Risk and Risk Bearing** (Chicago, 1931), p. 127. Also, Lionel D. Edie, "Investment," **Encyclopedia of the Social Sciences**, Vol. VIII, p. 263.

the penumbra or taking options on them for increases in the price which someone will pay for them for the purpose of subdividing. In many cases, acreage "specialists" appear, who make it their principal activity to form such syndicates. Frequently these syndicates sell to each other, always at advancing prices, until a subdivider buys a tract and proceeds to subdivide it.

No data are available as to the extent of such operations or the measure of the increase in the price of land traceable to them. They are, however, very extensive during a boom period, and the increases in price are not infrequently in a single turnover as high as 100 per cent. Usually these transactions are kept quite confidential; the members of a syndicate are usually known only to the broker or specialist who manages the transaction and to each other, and prices paid and received by the syndicates are jealously guarded.

The best that can be said of this type of speculation is that those who engage in it speculate largely with their own money. They usually operate, however, with as little cash as possible, buying on as favorable terms as they can secure, thus being able to realize a large percentage of profit on capital invested. When prices continue to rise, they reap handsome profits; when the rate of expansion declines, they suffer heavy losses. In many instances, however, acreage syndicates have paid as high as 800 per cent on capital actually invested.

Thus, from the point of view of the individual, speculation in acreage is extremely hazardous, but may bring large rewards. It results in very radical redistribution of wealth. When a venture is successful, the profits of speculators come from the pockets of subdividers or members of similar syndicates; and when the venture of these groups proves successful, the profits of the acreage speculator are loaded on to the selling price eventually asked for lots created from the acreage. Losses from unsuccessful ventures, of course, fall principally upon the speculators. From the point of view of society as a whole, there is merely a transfer of wealth; no new wealth is created, and little is lost by these transfers of ownership.

But, notwithstanding this fact, society does suffer from these operations in two distinct ways. First, the land involved is nearly always thrown out of use and lies idle while it is being held by the speculators. This land is usually so situated as to enable it to render valuable services as ordinary farms, truck farms, or recreational land. Instead of receiving the benefits of such services, the community must see this resource lie idle. About the fringes of most large cities today lies a great belt of such idle land, grown up in weeds, delinquent in taxes, and derelict.

Society also suffers from the disruption of economic relations brought about by both the losses and the profits of acreage speculation. In many communities, some of the wealthiest and most prominent leaders upon whom the welfare of the whole community depended have been bankrupted by acreage speculation. Sellers to speculators have been disappointed in failing to receive expected and contractual incomes and have in turn been compelled to default upon obligations they had undertaken. Thus the economic relations in the entire community have suffered.

It is difficult to discover any economic function which this kind of speculation performs. It cannot be defended on the same grounds as can speculation in the usual forms. It does not serve as a regulator of the market, and but partially to transfer risk to a

professional class of risk bearers.[8] In fact, much of the risk involved is actually created by the speculators. In a sense, therefore, it is more nearly comparable to gambling than to the usual forms of speculation.[9] There appears to be no necessity for the intervention of acreage speculators between original owners and subdividers. They insinuate themselves into the situation and sit and wait for profits. When profits are realized, they are paid for their risk by higher prices that final users of the land must pay. If any economic function can be claimed for them, it consists of the very feeble one of assembling larger tracts than might otherwise be available. On the whole, therefore, this type of speculation in suburban land is to be condemned as socially undesirable.

The activities of the subdivider are of two distinct types: in the first place, he may be compared to a manufacturer whose raw material is acreage and whose finished product is the urban site ready for use; in the second place, he is a merchant who must sell his wares to the general public. The degree of risk involved in these activities depends very largely upon his methods of operation. In practice, two distinct methods are found. These methods suggest the classification of subdividers into two groups, one of which subdivides primarily to supply a need for new and additional building sites, the other for a market in which the new sites can be sold not for use but for speculation (called "investment"). The one who subdivides for use finds his market among those who propose to build a house or a business building promptly; the one who subdivides for a market sells to everyone who can be persuaded to speculate.

Some of the most notable achievements in community planning and building of recent decades have been accomplished by subdividers who were attempting to supply a need. Among these achievements the Country Club District of Kansas City, built by J. C. Nichols, and Roland Park, Baltimore, may be mentioned. This type of operation does involve risk, but in it risk is reduced to a minimum. The greatest hazard it encounters is that created by the speculative operator who floods the market and paves the way for a subsequent collapse.

It is this second type of operation that tends to enhance the risk involved; and to the degree that risk is magnified, the subdividing process becomes speculative for all operators. Thus under present methods of operation, the whole process is shot through with uncertainty and unnecessary risk. As a result, the profits from successful operations are swollen and the losses sustained from unsuccessful ventures are disastrous. The whole process needs, both from the operators' and the public's point of view, a thorough revision of practices and methods. The only purpose of subdividing activities, one would suppose, is to provide additional urban sites for use as the urban community grows and needs more space. The need for sites, in other words, would appear to be the criterion by which the extent of subdividing activity should be gauged, just as the manufacture of automobiles or shoes or any other commodity should be gauged by the most intelligent analysis possible of the need for the commodity produced. But the wider one's observation, the more certain is

8Cf., Allan H. Willett, "The Economic Theory of Risk and Insurance," Columbia Studies in History, Economics and Public Law (New York, 1901), Vol. XIV, No. 2, p. 134. Also Charles O. Hardy, Risk and Risk Bearing (Chicago, 1931), Chaps. IV, VII and IX.

9The owner of acreage, of course, has to carry some risk of a decline in price. But he is presumably utilizing the land until acreage speculation begins. His risk, therefore, lies in the possibility that he may not sell at as high a price to a subdivider as he can secure from acreage speculators. When the latter purchase the acreage, the price they demand is increased, the land is thrown out of a productive use, and the whole price they pay is based upon a speculative hope for further advance; thus the risk is enhanced. They stand to lose all their investment; the owner only to lose the margin between the value of his property for current uses and for speculative purposes.

bound to be his conclusion that need for urban sites for use is never the controlling consideration with most subdividers and is, in many cases, not even considered. This fact accounts for the spectacular rises in the activity of the market and for its subsequent collapse and paralysis. The length of the cycles may be partially accounted for by the fact that it takes nearly thirty years to produce a new generation, which has to learn by pain and disappointment that while many fortunes may have been made through investments in real estate, many paupers likewise have arrived at their destination by the same route.

As a matter of fact, in most urban communities, the number of subdivided lots is nearly twice as great as the number in use; that is, for every lot in use, there is another lot vacant. In the Grand Rapids, Michigan, metropolitan area in 1931, 51,000 lots were in use and 40,000 vacant.[10] The percentage of lots vacant has varied since 1909 from 38 to 45. In terms of population, there were 43 subdivided lots of record, per hundred inhabitants, and 24 per hundred in use. In Chicago, in 1928, there were 1,227,000 lots of record and only 668,000 in use.[11] In Detroit, in 1926, there were about 25 per hundred in use and 75 per hundred of record. In Cleveland, in 1926, there were 30 lots of record per hundred population, and probably not more than 20 per hundred in use. In Milwaukee, in 1927, there were 36 lots of record per hundred population, and probably not more than 23 per hundred in use. Finally, in Birmingham, Alabama, in 1927, there were 44 lots of record per hundred population, with probably 25 in use.

It may be assumed that the principal source of the need for new lots is population increase, but when the total number of lots subdivided in any large urban community between 1920 and 1930 is expressed in terms of increase in population during the decade, the absurd heights to which speculation led subdividers becomes apparent. Thus, in the Detroit area, from 1920 to 1930, the increase in population was 843,586, or 70 per cent; in lots subdivided, 622,493, or 100 per cent; or for every one hundred newcomers to Detroit about 74 lots were prepared. In Cleveland, from 1920 to 1930, over 112,000 lots were platted, an increase of 43 per cent. Population increased by 258,000, or 28 per cent; platting activity, therefore, added 43 new lots for every increase of one hundred persons. In the Chicago area, population increased from 1920 to 1928 by about 700,000, or 26 per cent; lots platted increased from 1920 to 1926 by 448,000, or 34 per cent; and 64 new lots were available for every one hundred new inhabitants. In Grand Rapids, during the decade 1920 to 1930, the number of lots increased by over 34,000, or 60 per cent, while population was gaining 52,000, or 33 per cent; and 65 new lots were available for every one hundred newcomers. But, actually, one hundred newcomers to Grand Rapids during the decade used, on the average, only 24 lots. If utilization proceeded in Grand Rapids at the unprecedentedly rapid pace established during the decade, it would be over twenty years before the present lots were used; and if utilization proceeds at the same pace at which it has proceeded since 1909, some thirty-five years will be required to bring the lots into use. Professor Simpson estimates[12] that even by 1960, population growth will have required the utilization of only 90 per cent of the lots now available in the Chicago area. In short, subdividing anticipates utilization by

10Ernest M. Fisher and Raymond F. Smith, "Land Subdividing and the Rate of Utilization," Michigan Business Studies, Vol. IV, No. 5.

11Simpson and Burton, op. cit., p. 14.

12Herbert D. Simpson and John E. Burton, "The Valuation of Vacant Land in Suburban Areas," Institute for Economic Research, Studies in Public Finance, Research Monograph No. 2 (Chicago, 1931), p. 20 ff.

some thirty years, and the speculative subdivider sells his product for speculation. This fact makes his business exceedingly hazardous. For when the speculative frenzy dies, it takes a generation for the market to "come back."

The process by which sales are made is too familiar to need description. It is one in which high pressure salesmanship, cheap ballyhoo, and extravagant claims all play their part.[13] The psychological characteristics of the market are typical of all speculative markets. The questions of use and value are entirely forgotten, and prospective purchasers are frequently "guaranteed" by glib and conscienceless salesmen that they can resell their properties within a few weeks, or months at most, at advances in price. Elaborate sales arguments are built up around statistics of city growth and especially the increases in value that have come to strategically located business sites. The inference is that all urban land increases in value and the purchaser has only to wait until the inside residential lot, remote though it may be from transportation and other factors that might enhance its value, and although it is one in hundreds that are almost identical to it, will also sell for thousands when he has paid only hundreds.

In blind obedience to the speculative impulse, literally thousands of the middle classes and of the laboring classes succumb to these arguments and purchase. Thus in nearly every urban community, between 1920 and 1926, thousands of these classes bought lots, paid 10 per cent down, and mortgaged their earnings for about ten years to pay the "deferred balance" with interest and taxes. In one case, which may be taken as typical, over 75 per cent of the residential lots in a large subdivision were sold to people who were not even residents of the county in which the subdivision lay. Residential lots in the suburban area of Detroit were then sold in all the states in the Great Lakes region, and as far south as Georgia. Washerwomen and Ford factory workers, school teachers and professional men were all proud to be counted as owners of Detroit real estate. Likewise, suburban lots in Chicago were sold throughout the Middle West, and those cities which were not exploited so widely enjoyed a big domestic boom in which nearly every family in their borders staked its hopes of prosperity and fortune upon vacant lots. And even as late as 1931, it was reliably reported that in a community of 30,000, a suburb of Detroit, over $100,000 worth of vacant lots in Windsor, Canada, across the river from Detroit, were sold in less than three months.

As soon as the speculative subdivider has secured contracts for the purchase of the major portion of the lots in a subdivision he purchases another piece of acreage, and repeats the process of platting and selling. He thus places himself in the remarkable position of openly competing with his own customers. He has the advantage of his customers, however, in two ways. First, he dominates the market. His salesmen and his advertising seek out every potential buyer of a vacant lot. They call upon builders, they canvass all the names in the telephone books and even ring doorbells so as to make their canvass complete. It is, thus, by almost a miracle that any purchaser in a previous subdivision finds a bona fide purchaser for his lot that was so "sure to increase in value." But so long as the big subdivision across the street or farther down the road is selling out, even at advanced prices, he is not likely to get restive. He has comparatively little invested

13For a description of some of the more reprehensible practices see H. Morton Bodfish, "The Free Lot Subdivider: His Method of Operation and the Available Methods of Control," Journal of Land and Public Utility Economics, Vol. V, No. 2 (May, 1929), p. 187.

as yet anyhow. But all the time he is paying on his land contract to the subdivider. Thus we find the second advantage of the subdivider in the speculative market: he not only competes with his own purchasers, but he actually gets them to finance his speculative competition.

But eventually something happens. The market becomes surfeited; a catastrophe visits the community or the whole nation; the speculative fever subsides; purchasers for profit become more and more restive and anxious to realize their profits; and the market collapses. With it the whole structure of credit involved in the operations becomes undermined and falls. Then usually the subdivider is trapped as well as his customers. For he has proceeded to larger and larger operations on narrower and narrower margins. His collections on early contracts fall off and he becomes unable to meet maturing obligations. Thousands of the unsubstantial and "fly-by-night" operators, who consistently follow the speculative market from city to city and from state to state, disappear. Lots by the thousands are offered for the balance due on the contract, and there are no takers. Taxes, in the meantime, have risen to meet the costs of governing the vast stretches which have been "annexed" to cities and municipalities, and tax delinquencies appear. In some communities, land contracts have been used as collateral to bond issues that were sold to the public. Over 60 per cent of such issues in one large city area have defaulted, while tax delinquencies have occurred on as much as 47 per cent of the entire area of one of the municipalities in the vicinity of one of our largest cities. The savings of the thousands who speculated have thus been wiped out. Capital expended in the installation of streets, sidewalks, and public utilities lies idle and is rapidly disappearing, while only the miles of decaying sidewalks and reeling lamp posts remain to bear mute testimony to the speculative folly of both subdivider and "investor".

The social losses involved in this process arise from several sources; the first is the loss of the services of the land; second, the loss of the time and labor of the subdivider and his whole crew; third, the loss of capital invested in "improvements" which will either yield a very insignificant return of services to scattered or isolated families or will entirely disappear; and fourth, the losses due to dislocation of economic relations in the community. No quantitative measure of these losses is available. It may be assumed, however, that they are probably not less than the amount invested in vacant lots. This amount has been estimated in two communities. A very conservative estimate for the city of Grand Rapids places the amount at $26,000,000, enough to pay the entire tax bill of the community for over three years, or to pay off all the bonded indebtedness of all governmental units in the area with more than $5,000,000 left over. It represents over $150 per inhabitant of the metropolitan area in 1930. And it should be added that Grand Rapids is by no means a "horrible example". The situation there probably represents rather the typical than the worst in the country. In Los Angeles, Riggelman and Eberle estimated in 1924 that 156,557 lots were vacant. The estimated value of these lots, based upon an adjustment of assessed valuations, was $1,100,000,000. They further estimate the annual cost of carrying these lots at $100,000,000.[14]

It is obvious that any such drain upon the financial resources of a community as is indicated in these communities represents the diversion of a significant amount of capital to a nonproductive purpose. This diversion in

[14]See Riggleman and Frisbee, Business Statistics (New York, 1932), pp. 489, 491.

turn probably affects the interest rates which productive enterprises must pay. The result may be an interest rate so high as to prove a handicap to industry and production in general.

In one instance a city was obliged to spend over $19,000,000 in constructing a sanitary sewer to serve outlying subdivisions, sparsely settled, and scattered over a wide area. This was probably at least twice the sum that would have been necessary to serve the same number of people if they had been located more closely together. Similar wastes occur in connection with the provision of miles on miles of water mains, sidewalks, and pavements for isolated units.

In many respects, however, the heaviest loss to the community comes from the disruption of economic relations. The influence of subdivision activities on the general credit situation in a community is both far-reaching and profound. When the market and values upon which credit is based collapse, the repercussion must be severely felt upon the whole economic life of the community. Further, the wide distribution of losses causes them to fall, in probably a majority of cases, upon those who are least able to bear them. It is the laborer and the skilled artisan, the widow, and the white-collared class who suffer most in these fiascos. They are told that land is the safest form of investment, that it cannot be destroyed, stolen, or moved away, and that it always enhances in value. Since the majority of these classes are uninformed of the facts in the situation, they are easily imposed upon. The resulting losses to them and to the community because of the disruption of economic relationships would be difficult to exaggerate. That the whole process plays an important part in the business and economic welfare of the community appears to need no argument.

In view of this fact, it may be desirable to examine some of the proposals for social control that would tend to curb the excesses and secure a better adjustment of subdividing activities to the needs of the community for additional urban sites.

The most direct method of control would consist of public purchase and ownership of the acreage in the penumbra. This method has been successfully used in Stockholm, Berlin, Cologne, Frankfurt on the Main, and other German cities. It gives the municipality or other public body practically absolute control when ownership is extended to enough of the land in the penumbra to give the public authority a virtual monopoly of acreage. When ownership is coupled with the use of such an instrument of tenure as the long-term lease, the control is perpetuated. This method of control, however, is foreign to American custom, political and legal thought. It is difficult to imagine its ever being widely authorized or adopted.

The second method of control suggested consists of enacting legislation which is based upon the assumption that subdividing activities are vested with a public interest and which will require those who propose to subdivide to secure from a public administrative body a certificate of public convenience and necessity before proceeding.[15] Much of the data necessary to enable such a body to administer this sort of law effectively and fairly is available. In city planning commissions and other similar administrative authorities the machinery for administration is provided. The attitude of many of the higher courts expressed in decisions in city planning and zoning cases indicates that these courts might be friendly toward such legislation if

[15]See Coleman Woodbury, "Some Suggested Changes in the Control of Urban Land Development," Journal of Public Utility Economics, Vol. V, No. 3 (August, 1929).

conservatively drawn and intelligently and tactfully defended before the courts. But there are many problems of both economics and law that have to be carefully examined before such legislation could be properly drawn. It is doubtful also whether state legislatures would be friendly toward so radical a departure. The present, however, is an exceedingly favorable time to present such a proposal. It remains to be seen whether any such legislation will be prepared.

These two proposals are aimed directly at the heart of the problem; namely, control of the quantity of land subdivided. Some other proposals designed to modify the situation somewhat have been made. Among these are: (1) The proposal that subdividers be required to install the necessary public improvements in all plats subdivided, or to post a bond guaranteeing such installation, before the lots are offered for sale to the public. This proposal is intended to eliminate the irresponsible and fraudulent operator who promises everything and delivers only staked lots. (2) The proposal that before a subdivider be permitted to offer lots for sale, he must prove ownership of the property free and clear, or he must be joined in all contracts for deed by parties who have any prior liens or interests in the property. This proposal has the same intent as the previous one, and, in addition, the intent of preventing contract purchasers from losing their equities by default of the subdivider on underlying obligations.

Something certainly could be accomplished by the collection and dissemination of information regarding the situation as it exists in various communities. Such data as have been collected have demonstrated that discrepancies between the total number of sites subdivided and the needs due to population growth can be discerned early in the boom period. If these data could be interpreted to the public as a whole, they would doubtless serve to temper the enthusiasm of speculative buyers. The difficulty in the use of this method lies in the problem of getting the material before the public and sufficiently interpreting it to enable them to discount the representations of sales agents.

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Depreciation, Obsolescence, and Lack Of Utility In Residential Property

By K. LEE HYDER, M.A.I.

THE term "depreciation" is subject to many definitions and forms of interpretation, and perhaps is more generally misunderstood when applied to the home than to any other type of property. A discussion of depreciation in the abstract is beyond the scope of this article, and for the present purpose the broadest definition will be taken,—that is, "depreciation is loss in value". Particularly in the home is this broad interpretation true. Many factors that tend to reduce desirability and value occur in all types of property, but all of these are found in considering the house in which we live. The recognition of these factors and the attempt to combat them is the greatest single activity in the Nation — and incidentally has the largest payroll.

> *The measure of success for any civilization is directly reflected in the stability of the home. As the material, the aesthetic, and the utilitarian qualities are each weighted into the formula, so may the history of a nation be traced, through the housing of its people.*

Depreciation of the home is only partially a natural phenomenon, and may have its inception in any one residential property in the architect's plans and specifications, or in an oversight on the part of the Realtor when laying out a subdivision and offering home sites for sale. Improper materials called for in the specifications may ultimately set up depreciation at a rate more rapid than normal in the finished structure; and a flaw in the deed to a lot involving restrictions for residential construction may eventually mean an unbalanced improvement resulting in increased depreciation for economic reasons.

Depreciation follows no definite formula nor does it proceed at any definite rate — this in spite of claims of economists and theorists to the contrary. Most of these theories are directed toward "accounting for depreciation", for which purpose a logical rate or formula may be devised. This accounting, however, is nothing more than the providing of a factor of safety for bringing back the investment and does not necessarily have any bearing upon the actual condition and depreciation of a property at any one moment, which is the primary subject of this discussion.

Every home owner, whether or not he has any technical knowledge of the subject, has given some thought to the question of depreciation; but he usually looks at this as a matter of expediency, claiming rapid disintegration when discussing values with his assessor, and failing to find any actual deterioration when offering his property for sale.

Depreciation, as applied to a residential property, may be considered generally under the following divisions: structural, aesthetic, and economic.

Structural Considerations

Under structural considerations depreciation is limited to a particular building in the physical sense. We all know of the contractor who "puts up" a "five room and bath English Cottage", or an "eight room and two bath Colonial" from a stock plan on any lot one might select, this for an exact sum of money — "no extras" guaranteed, and who uses the argument "Plans and Specifications free; save the Architect's Fee" to help sell the job.

Forgetting for a moment the question of individuality that is missing from this "stock" house, the owner will usually discover in a few short years that he is paying in rapid deterioration (physical depreciation) what he thought he was saving, and — worst of all — the condition usually cannot be remedied. Again the mere specifying of high grade materials is not a sufficient guarantee of quality since the character of workmanship is of even greater importance, and the layman generally cannot distinguish the difference between the better and the poorer class of work. It is what is "covered up" in most houses that counts structurally. The "competition" house may closely resemble a specially designed and soundly constructed home on the surface, but it is at best a temporary comparison.

Poor housing construction was a great "racket" long before Chicago added this word to our vernacular of slang. The story was told years ago of a quantity builder of "Quality Homes" operating in one of our larger cities who adopted the rule: "Never take the scaffolding down until you put the wallpaper up".

Whether a house is of frame or brick is considered by some to influence its depreciation. This is a fallacy. We have frame houses in New England built in revolutionary times which are still in almost perfect physical condition — and they have hard winters in New England. A frame house may require slightly greater average expenditures in maintenance, but hardly out of proportion to the difference in the original cost as compared to a brick house. For all practical purposes, therefore, even the "rate" of depreciation might be the same. Well constructed houses have almost an indefinite life as far as the structural materials themselves are concerned; it is the heating plant, plumbing piping, sheet metal, roofing, and other details that have a limited physical life and must be replaced from time to time. A frame house, therefore, with a high grade of fixtures may deteriorate less rapidly than a brick house that is poorly equipped.

Of even greater importance to the masses of home owners are the utilitarian factors represented primarily in proper planning. The same general arrangement of rooms may be adopted for many styles of exterior design. After all, it is the plan of the house that is of the greatest importance from a practical standpoint, and care in the layout will result in maintaining desirability and holding back depreciation perhaps more than any other single factor.

A well-known builder of small residences once said in revealing the secret of his success: "Do not worry about the layout, style, or grade of construction, just give 'em plenty of *closets*". This contractor was evidently a student of human nature and did not overlook the fact that *loss in desirability from any cause is depreciation.* Many a house has a running start in depreciation due to a lack of closet space or other mistakes in design. These errors may, in fact, many times be charged to the architect of reputa-

tion as well as to the builder, and they are basic errors difficult to rectify.

Much progress has been made in home planning in recent years through the assistance of our various builders organizations in presenting Better Homes Exhibits as well as permanent displays of building materials and housing specialties. The American Institute of Architects and affiliated construction industries have done a great work in building up the desire for sound planning and construction in the minds of the masses. This advance in thinking is one of the few rays of light during this period of economic debacle and may well be the prime factor in ultimate recovery.

Aesthetic Considerations

Styles in residential construction change from time to time, brought about for much the same reasons as any other swing in public demand. In general, simplicity in design is always best, and depreciation will be less in residences of this type than in those built to meet some bazaar "fad" of the moment. From the aesthetic standpoint a pleasing use of materials, a proper setting on the lot, and attractiveness of exterior design, are of great importance and have much to do with the value of the property and the rate at which it loses its desirability and therefore takes on depreciation.

Just now we appear to be in the throes of a mass movement to the "Modernistic" in all forms of design, including residential architecture. The "Century of Progress" at Chicago is perhaps the first sustained effort actually to break away from what we had learned to understand as the conventional "styles" in design. It is hardly probable, however, that this will be a permanent acceptance; and in fact there are many indications that this "Modernistic" idea will soon be relegated to a place with other "schools" of the past that sprouted, flourished, and died in a few short years. The aftermath may well clear the atmosphere and possibly have a more or less lasting influence upon public taste and desire.

History repeats itself in art as in all other things, and the only basic difference in this and former generations is in the present demand for ever increasing speed and variety. We shall no doubt change again—and probably in a shorter time. The modernists stress simplicity and utilitarianism. They profess to believe that the only true beauty is thus obtained, and undoubtedly to a certain extent this viewpoint is sound. However, the appalling disregard for honest craftsmanship and the crude results of the unskilled imitators are undermining influences that forecast another upheaval in the near future.

A house constructed and furnished in a typically modernistic manner today is a very doubtful asset and commands a limited market. Depreciation looms as a great hazard against such an investment. Conservative capital does not care to take the risk of a loan and is more inclined to stick to the safer ground where comfort, good taste, and beauty of design in form and color are harmonized with the styles that have been proven acceptable and continuously desirable to the majority in the past.

As a class, the homeowner is becoming educated and more exacting; and directly as this knowledge increases so do the aesthetic considerations become ever more important factors in depreciation.

Economic Considerations

Obsolescence may be of two kinds: structural and economic. Structural obsolescence usually takes place gradually as the result of new modes of living and the advancement of art and science in building materials. Eco-

nomic obsolescence is a function of the surroundings and frequently of the city itself whereby basic changes are taking place in its growth and development. Every city passes through many stages of transition which in turn tend to change the character of various neighborhoods as the population increases and business requires more space for development.

Actual restrictions in deeds to residential property are a comparatively recent development. Just how much effect this will have in retarding economic obsolescence for this type of property is difficult to estimate, but it is probably simply a question of degree—since the influence still remains. There are outstanding examples of rapid depreciation in residential property brought about by the existence of certain unrestricted lots left at the time a subdivision was placed upon the market and subsequently improved with apartment houses, commercial structures, churches, or other types of construction not in keeping with the residential neighborhood. The mere announcement that a church or a store will be erected on the next corner is many times sufficient to depreciate all property in the block over night to a very substantial degree. On the other hand, the desirability and basic value of residential property is also heavily depreciated if it is not conveniently close to stores, schools, local transportation, and other general facilities to meet the regular daily needs of the people. This situation has brought about zoning regulations, and basic attempts have been made in various parts of the country to improve housing generally by adopting a sound underlying plan of development. All of these studies are just another effort on the part of the people to off-set the constant drain of depreciation and the resulting effect on property values.

How Shall Depreciation Be Determined?

There is only one way to determine the amount of depreciation sustained at a given moment on any residence. That is by personal inspection and investigation. Our governmental authorities have developed elaborate depreciation tables for houses of various types of construction. Most of these are set up as "rates per annum" that should be written off to cover "loss in useful value", the rates ranging from perhaps 1½ per cent to 3 per cent per annum. Local tax authorities frequently adopt such tables and apply arbitrary reductions, as developed therefrom, to the cost of reproduction new, based upon the *type* and *age* of the structure. All such tables are at best nothing more than averages and have little, if any, merit as applied to a specific property.

It has been previously stated that well-constructed houses, if properly maintained, can be made to last almost indefinitely. The life limitation in such tables must, therefore, be predicated largely upon structural and economic obsolescence considerations, both of which result from factors having no direct relation to age. A piece of "Stickley" furniture designed in the period of 1908 is now obsolete; a "Sheraton" dining room chair, however, or an "Adam" mantel may be still prized for the design itself, and even a modern reproduction has no element of obsolescence involved. *Age* may bring deterioration as a natural process, but considered alone it is the least important factor in measuring depreciation.

It is virtually impossible to consider the depreciation in the improvement without taking into account the land upon which it is situated. Usually there is a well-defined demand and value for residential lots, at least up

until the time the surrounding area is fully improved. The actual sustained depreciation on the improvement in the final analysis is reflected as the difference between what the house would cost under the current market conditions and what it adds in its then condition to the value of the land. This formula cannot be directly applied, of course, but a thorough study of depreciation should be directed toward obtaining such an answer. Obviously the proper answer would automatically involve structural, aesthetic, and economic considerations of all kinds. It is conceivable that an improper improvement, even though just constructed, would immediately take on a substantial economic depreciation; whereas an older house, well-designed and planned, and suited to the neighborhood, would show little depreciation excepting the actual structural deterioration that might be represented in the materials themselves.

The "Home" in the true sense is not an "income property", and while its market value — and indirectly its depreciation—may be measured at times by what it will bring in rental, this method is at best nothing more than a secondary test upon the judgment of the appraiser. There are too many intangible factors involved in analyzing the desirability and value that have no direct relation to the temporary income it might develop.

There is, of course, the question of depreciation for insurance purposes. It is the custom of insurance companies to insist upon a coverage substantially in line with what it would cost to replace the structure in part or in whole at the current market price for materials and labor. For the purpose of writing insurance, therefore, the structure is considered independently from the land and depreciation computed to cover physical defects only, virtually irrrespective of any consideration of obsolescence, either structural or economic. Undoubtedly the most practical method of measuring this physical deterioration is to make a detailed estimate of the expenditures that would be required to bring the structure in all its elements to a condition equivalent to new.

Proper Viewpoint for Home Owner

The man who owns his own home should have no worry regarding depreciation. He should recognize that, after all, it is an investment in comfort and well being for his family, and treat it as a permanent asset. This asset must be preserved, however, in a desirable condition if it is to render the maximum of service. Therefore, while he need not set aside a depreciation reserve in fact, as should be done in the case of other forms of property, he should include in his budget of living expense an allowance sufficient to maintain his home in proper condition at all times. Sooner or later a new boiler will be required, a new roof must be put on, and periodically the house must be painted inside and out. The necessity for such periodic replacements is the real evidence of the actual physical depreciation that is constantly taking place, and it is by recognizing this fact and providing for it that the integrity of his investment is maintained.

A time will undoubtedly come when any home will have little remaining value. It would be possible to set this up for the future at twenty, thirty, or forty years for depreciation purposes, but to the average home owner it would be impracticable. The obsolescence which would probably be the chief factor in the ultimate depreciation may occur gradually, or it might take place at any moment for reasons unrelated to the specific property and entirely outside of the control of the individual property owner.—Author.

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The Doctrine Of Surplus Productivity

By GEORGE L. SCHMUTZ, M. A. I. *and*
LORING O. MCCORMICK

THE value of Land *tends* to be set by the Surplus of Productivity (net income) imputable to it—both present and prospective.

History discloses the fact that land prices fluctuate—sometimes violently—and the reason for such variations in price is largely occasioned by variations in the Surplus (net income—both present and expected) attributable to the land.

There are four factors in the production of the Joint Product (gross income), namely:

1. *Labor;* 2. *Organization;* 3. *Capital*; 4. *Land* (or natural resources). The first three of these must be paid before any rental income (hence value) can be imputed to the fourth (Land). Therefore, *the Surplus of Productivity (net income) is that which remains (of the Joint Product) after the costs of Labor, Organization and Capital have been paid;* and it is this Surplus which *tends* to set the Value of Land.

For illustration, in a furnished apartment house:

1st: the Joint Product must be sufficient to pay the costs and Labor (i. e., manager, janitor, maids, gardener, etc.), else such services would be discontinued. *Labor has the first claim on the gross income.*

2nd: in addition to the costs of Labor, the Joint Product must also be sufficient to pay the costs of Organization (public utility services, e. g., gas, electricity, water, etc., taxes, insurance, laundry, etc.), otherwise these services also would be discontinued. Hence, *organization costs have the second claim on the gross income.*

3rd: the Joint Product must be also sufficient to pay the charges of Capital (interest on and depreciation of the cost of the structure, furnishings, and equipment). Thus, *Capital Charges give the third claim on the gross income.*

4th: if, after the satisfaction of the reasonable claims of 1st: Labor; 2nd: Organization; and 3rd: Capital—the total of which costs are commonly known as Expenses,—there then remains any portion of the Joint Product — such remainder, called the Surplus, or the Surplus of Productivity, is imputable to Land (and profit, if any). Ignoring the Profit item, for the sake of clarity, and further because, in the long run, *Land tends to absorb the profit,* it is found that it is this Surplus — both *present* and *prospective* — which *tends* to establish the value of Land. Therefore, fluctuations in the Surplus will tend to induce concurrent fluctuations in the market price of Land.

In the definition it was stated that the value of Land tends to be set by

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This is the second of a series of articles by Loring O. McCormick and George L. Schmutz, M.A.I., on the **Economic Approach to Valuation Procedure.** The third article will appear in the January, 1934 issue.—Editor.

the net income imputable (earned) by it—*both present and prospective.* Inasmuch as all benefits (income) from a property must arise in the future, it is obvious that there are three intelligible suppositions which can be made regarding their quantity, viz.,—

1. that the Surplus (net income) of the future will be the same quantity as at present (with no increases nor any decreases); or
2. that the Surplus will increase, because of greater rents, occasioned by increased purchasing power of the district, etc., etc., or by a rising real estate market; or
3. that the Surplus will decrease, because of lessened rents, occasioned by depreciation and obsolescence, district mutation, etc., etc., or by receding real estate market.

Considering that everything is in a state of flux, and reflux, and that the earning capacity generally tends to diminish with age; and that the history of rentals during the past fifty years discloses either rising or falling incomes, it becomes obvious that the first assumption,—that the net income will remain in Status Quo (without change), is wholly untenable under practically any set of environing conditions.

The second and third assumptions,—that the net income will either increase, or decrease—with the passage of time, will be found to be the more tenable of the suppositions stated.

Changes in Quantity of Surplus Productivity

We have traced, in a more or less abstract manner, the effects of changes in the Surplus of Productivity. Let us now turn to a more specific illustration in order that the Doctrine of Surplus Productivity be clearly grasped. Let us imagine a zoned district of 800 front feet for business use which frontage will ultimately serve a population of 3,200 people.

Let us assume that a grocer looks over this district when the residential area surrounding the district first starts to build up. Before the grocer could establish himself in business, he must first feel confident that certain costs can be met, and let us assume that these costs are as follows:

Labor (his Standard of Living)	$150.00	month
Capital ($2,000.00) interest thereon at 12%	20.00	"
Operating and Organization costs (Credit losses, taxes, etc.)	80.00	"
Necessary Gross Profit Monthly	$250.00	"

Now if his gross profit on the goods he sells is 10%, it is clear that he must sell goods to the amount of $2,500.00 per month in order to meet his costs, and if there is only $2,500.00 of business to be had, he cannot establish himself in business as he could pay no commercial rent from the Joint Product. However, the district continues to grow and he again makes a survey and finds that he can expect sales to be at least $3,000.00 per month and that then he can pay $50.00 per month as rent. As a result of this reasoning he goes to the owner of a lot and negotiates a three year lease at $50.00 per month and after occupancy finds his estimates verified. From the grocer's problem let us now turn to that of the landlord who leased him the property. The landlord's computations are as follows:

Cost of building	$3,000.00
Int., dep., and Obsolescence, repair-taxes (per year)	480.00
Total commercial rent received (per year)	600.00
Rent (imputable to land)	120.00
$120 divided by 6%—value of land	$2,000.00

Let us further assume that three years pass — the residential district is rapidly growing, and the business district largely occupied and the grocer doing a business of $4,500.00 per month. At $4,500.00 of business per month, the grocer's costs have only increased $75.00 per month, and above his original living standard of $150.00 he now has a surplus or profit of $75.00 per month. At the expiration of his lease another merchant goes to this landlord and offers to pay $100.00 per month as rent. Will the grocer meet this competition or will he give up his business and move elsewhere and start over again? Generally speaking, he will meet the competition of others for the site and thus increase his rent from $50.00 to $100.00 per month, with the result that the Land would absorb the Surplus of Productivity above the costs of Labor, Capital, and Organization costs. This example illustrates how land absorbs the Surplus of Productivity, and also infers that the value of land is set by the quantity of earnings at the present or near present, together with any increase of earnings which might arise in the more distant future.

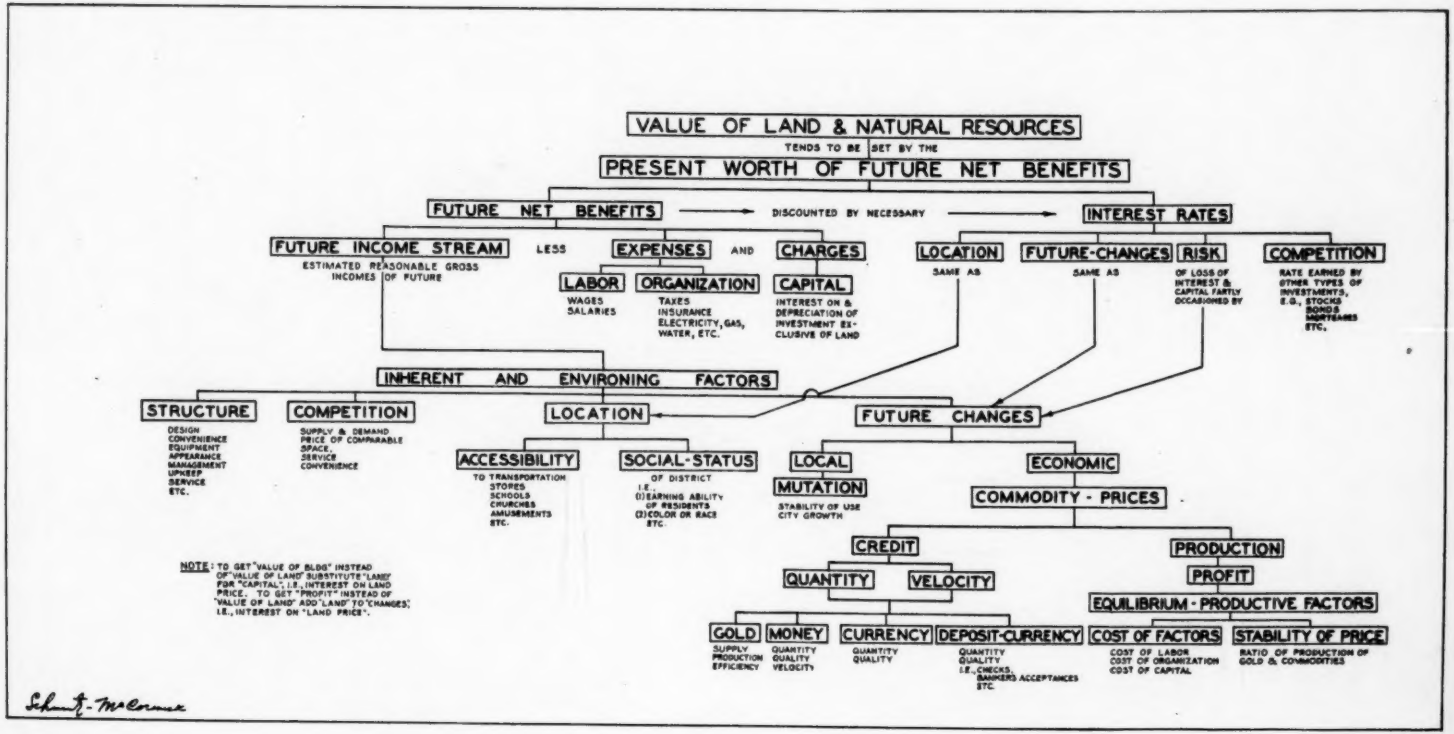
Distribution of Income to Productive Factors

When the productive factors (labor, organization, capital, and land) are not in "structural alignment", or are in "maladjustment", i. e., out of balance, they will eventually adjust themselves, and get back in balance, although it may be at a new price level. For illustration, consider a hypothetical case of an apartment house as in the accompanying table.

In the case cited, if we assume that the productive factors were in balance in 1928, i. e., that Labor should receive 12% of the Gross Income; that Organization should receive 28%, etc., etc., we find that in 1931, because of a recession in rents, and a lesser recession in some of the productive factors, that some of the factors are receiving more than their proportionate share of what they produce, e. g., Labor cost has increased from 12% to 13.5%; Organization costs have increased from 28% to 34%, etc., etc., all with the result that the Surplus (net income) to Land has disappeared, and an inadequate return is left for Capital.

Under such conditions, with no Surplus to Land, it becomes obvious that vacant land will not be employed (im-

	Annually	
Gross Income (Joint Product)	Year 1928	Year 1930
After vacancies	$25,000.00 = 100%	$20,000.00 = 100%
Costs and Charges		
1. *Labor*		
Manager, maids, etc.	$ 3,000.00 = 12%	$ 2,700.00 = 13.5%
2. *Organization*		
gas, water, electric, taxes, etc.	5,000.00 = 20%	5,000.00 = 25.0%
upkeep, and repairs	2,000.00 = 8%	1,800.00 = 9.0%
3. *Capital*		
Interest and depreciation—		
on building	8,500.00 = 34%	8,500.00 = 42.5%
on furniture	5,000.00 = 20%	2,000.00 = 10.0%
4. *Land*		
Interest on demand price	1,500.00 = 6%	None = 0
Total	$25,000.00 = 100%	$20,000.00 = 100%


VALUE OF LAND & NATURAL RESOURCES
TENDS TO BE SET BY THE
PRESENT WORTH OF FUTURE NET BENEFITS
FUTURE NET BENEFITS
DISCOUNTED BY NECESSARY
INTEREST RATES
FUTURE INCOME STREAM
ESTIMATED REASONABLE GROSS INCOMES OF FUTURE
LESS
EXPENSES
AND
CHARGES
LABOR
WAGES SALARIES
ORGANIZATION
TAXES INSURANCE ELECTRICITY, GAS, WATER, ETC.
CAPITAL
INTEREST ON & DEPRECIATION OF INVESTMENT EXCLUSIVE OF LAND
LOCATION
SAME AS
FUTURE-CHANGES
SAME AS
RISK
OF LOSS OF INTEREST & CAPITAL PARTLY OCCASIONED BY
COMPETITION
RATE EARNED BY OTHER TYPES OF INVESTMENTS, E.G., STOCKS BONDS MORTGAGES ETC.
INHERENT AND ENVIRONING FACTORS
STRUCTURE
DESIGN CONVENIENCE EQUIPMENT APPEARANCE MANAGEMENT UPKEEP SERVICE ETC.
COMPETITION
SUPPLY & DEMAND PRICE OF COMPARABLE SPACE, SERVICE CONVENIENCE
LOCATION
ACCESSIBILITY
TO TRANSPORTATION STORES SCHOOLS CHURCHES AMUSEMENTS ETC.
SOCIAL-STATUS
OF DISTRICT I.E. (1) EARNING ABILITY OF RESIDENTS (2) COLOR OR RACE ETC.
FUTURE CHANGES
LOCAL MUTATION
STABILITY OF USE CITY GROWTH
ECONOMIC
COMMODITY - PRICES
CREDIT
QUANTITY
VELOCITY
PRODUCTION
PROFIT
EQUILIBRIUM - PRODUCTIVE FACTORS
GOLD
SUPPLY PRODUCTION EFFICIENCY
MONEY
QUANTITY QUALITY VELOCITY
CURRENCY
QUANTITY QUALITY
DEPOSIT-CURRENCY
QUANTITY QUALITY I.E., CHECKS, BANKERS ACCEPTANCES ETC.
COST OF FACTORS
COST OF LABOR COST OF ORGANIZATION COST OF CAPITAL
STABILITY OF PRICE
RATIO OF PRODUCTION OF GOLD & COMMODITIES
NOTE: TO GET "VALUE OF BLDG" INSTEAD OF "VALUE OF LAND" SUBSTITUTE "LAND" FOR "CAPITAL", I.E., INTEREST ON LAND PRICE. TO GET "PROFIT" INSTEAD OF "VALUE OF LAND" ADD "LAND" TO "CHANGES", I.E., INTEREST ON "LAND PRICE".
Schuyler F. McCormick

proved), which will result in a diminution in construction volume, thereby leading to unemployment, and finally resulting in a reduction in the cost of labor.

The Organization costs will be the last to recede for the reason that they are largely set by governmental regulation, but when any of these costs do recede, such saving will be absorbed first by capital, and secondly by land.

Thus, when the productive factors are not in structural alignment (e. g. 1931) there will be a future change in the Surplus (to Land), and hence, to say that the land has no value because it has no income at the moment is utterly ridiculous—if the productive factors are out of balance, for the reason that *Land inexorably shears off the excess costs of, Labor, Organization and Capital,* and such excess costs which have been sheared off, eventually are absorbed by firstly, Capital (until capital requirements are satisfied), and secondly, Land.

There is no limit to the value of land, except the costs of Labor, Organization, and Capital, i. e., with a given gross income, the value of land will tend to be set by the costs of these three factors in production.

Furthermore, the costs of Labor, Organization, and Capital cannot permanently sink below their supply price; nor can they permanently remain above it. For example, should the wages of labor in any industry be insufficient for labor to maintain its customary standard of living, the supply of labor for that industry would cease to be available, and would seek other fields of endeavor, thus rendering a labor shortage which would bring about an increase in wages.

It thus becomes apparent that, inasmuch as *Labor* constitutes an appreciable portion of the costs of Organization, that Labor is the most important factor, and its effects most far reaching, in maintaining or regaining normal balance among the productive factors.

Causes of Productivity

The two chief causes of differences in the productivity of Lands are—*fertility* and *location.* All other things being equal, a farm yielding 30 bushels of a product per acre will be worth more than one yielding 25 bushels. *Location* is as important as *fertility,* but in a different way. Let us assume two farms of equal area and fertility and an equal distance from market,—one served by a concrete highway and one by a dirt road of poor quality. If it costs 10c per bushel to haul to the city over the dirt road and only 5c over the concrete road, it is clear that the farm on the concrete road will be the more valuable. If the production of either farm be 2,000 bushels, the net earnings of the farm on the concrete highway would be increased by $100.00 per year which capitalized at 6% would reflect a value of $1,666.66. The excess of earnings thus occasioned by the existence of a good road is illustrative of the value of location.

From the above example it is indicated that *the value of location is to be measured by the ability to conserve time, effort, and capital.* Energy was expended by man in time and space to create capital and therefore the better road, by its ability to conserve time, effort, and capital (less depreciation on trucks or wagons) has made the farm located near it the more valuable. This truth holds true, with minor qualification, for nearly all properties. *Rent merely tends to equalize the differences in location;* and the Rent paid for a property tends to measure the ability of the property to conserve time, effort, and capital.

In urban sites, fertility is *nil,* and location becomes the paramount factor. Sites are bid for and eventually gravitate to the use which can pay the

most Rent for the location. Even the street and the side of the street become issues with different types of business, and a correct estimate might mark the difference between failure and success.

Sites in the intensive portion of the downtown areas command great rents in respect to outlying properties, and this difference in rent measures the difference in their respective abilities to conserve time, effort and the capital of the persons using them. Car stops, transfer corners, and intersections are more valuable because of their being accessible to more people and because they are able to conserve a greater amount of time, effort, and capital. Higher rents do not always mean higher retail prices. Higher rent locations because of larger volume of sales, can usually reduce prices. For example, the downtown department stores, situated on highest priced land, usually undersell the neighborhood stores. The good site, like good land, brings an advantage to the users, and competition for the site enables the owner thereof to exact as rent, the difference or a great part of the difference in productivity. Rent thus appears, in its ultimate sense, as a measure of ability of locations to conserve time, effort, and capital; and the rent paid tends to equalize the advantages of different sites to the users. "Tends" is used advisedly for, as a general rule, the superior sites yield more in proportion to the rent paid. All the superior productivity is not absorbed by the land though such absorbing is the tendency. This fact should be kept clearly in mind as it will be spoken of later in valuations based on income.

The Doctrine of Contribution

The Joint Product of the four factors in production is determined by the combination thereof, and it is possible to determine reasonably accurately what part of the Joint Product is due to any factor in production. It can be said that the only practical means of measuring the contribution of any given factor in production is to find out how much it adds by its presence, or detracts by its absence, to or from the Joint Product. The measurement of the net value of the contributing factor or factors is known in economics as Appraisal Science.

The primary purpose of every business is to make a profit, and the value of the aid given by any productive factor will depend upon how much its presence decreases the joint costs, OR how much it increases the price received for the Joint Product.

In Appraisal Science, the decrease in joint costs, or the increase in the price received for the Joint Product is measured in terms of Net Income. For example, in an apartment house, let it be assumed that the installed cost of an automatic elevator is $2,000.00, and that the annual charges,—such as interest, depreciation and insurance on the elevator would amount to $400.00 per year. Further, let it be assumed that the elevator is responsible for an increase in the gross income of $500.00 per year. Then, the elevator is paying all of its costs and still leaves a profit of $100.00 per year, which capitalized at 20% (for illustration) would reflect a value of $2,500.00 for the elevator.

Further, if a second elevator were to be installed, and was found to increase the gross income of the property by $800.00 per year, of which $300.00 would be due to the installation of the second elevator, which would also have an annual expense of $400.00 it is seen that the second elevator would be worth less than its cost, while the first elevator was worth more. Thus it is seen that the value of any factor in production depends upon its contributions to the net income, and not upon its cost.

It must be borne in mind that, in many cases the work of individual factors in production are so indirect that the value of their contribution must always remain a matter of estimation. However, whether it be an extremely rough estimate or a close measurement, it is the contribution to the Joint Product that is the foundation of the evaluation of any given productive factor. This principal of contribution determines the extent of the demand for any productive factor. The highest price that anyone would be willing to pay for any given factor will depend upon how much it adds to the Joint Product over and above the costs involved by its use.

In the case of elevators, and of lights, boilers, refrigeration equipment, etc., allowance would have to be made for the cost of repairs, maintenance, and interest. The increase in the value of the Joint Product to which these factors are contributors, after deducting these extra costs, would mark the outside limit of the price a person would be warranted in paying for their use. In daily practice, we constantly compare the relative value of the productive factors—deciding on more or less elevators, greater or lesser Capital investments on Land, greater or lesser unit costs of structures, etc. The practical question always uppermost in mind is—will it pay—and whether or not it will pay will depend upon what will be gained or lost, by or from the Joint Product, by the use of more or less units of the Productive Factors.

The development of appraisal practice, and costs systems, have all helped to determine more exactly the value of individual productive factors, but there still remains lamentable ignorance in this respect. The appraiser should constantly bear in mind that the only practical test of the value of any productive unit is,—what is added to the value of the Joint Product by the presence of the unit, or lost by its absence. This truth has the greatest practical application to appraisal practice and particularly to the measurement of lots of varying depths, and to "under", "over" and "misplaced" improvements.

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Industrial Property

By PERCY A. GADDIS, M. A. I.

THE line of demarkation between, Industrial, Commercial, and other similar classifications is not very clear or well defined; however my conception of Industrial Property is, that which is principally used for the manufacture and distributing of commodities.

In handling the appraisal of all industrial property we must first recognize that the controlling influence of value and its stability is location, created and brought about by labor, transportation, convenience to market, and receipt of necessary raw materials, or in other words development of the circumjacent territory. The physical condition of the improvements, suitability to location, age, physical depreciation changes taking place due primarily to the advance in the arts and science of construction, handling of goods, also changes taking place due to shifting of industries, particularly special branches from one section to another.

Obsolescence, through the development of the style factor, has created new sales markets for tomorrow out of the very market that industry had satisfied yesterday. Wear alone made replacement too slow for the needs of American industry. And so the high priests of business elected a new god to take its place along with—or even before—the other household gods. Obsolescence was made supreme. Obsolescence meant being out of date. It could be created almost as fast as the calendar, certainly as rapidly as the creative power of inventive minds determined. The danger of saturation could be removed beyond the stars. If what had filled the consumer market yesterday could only be made obsolete today, then that whole market would be again available tomorrow. The foregoing adds a new and additional meaning to obsolescence as we generally understand it.

Some of the modern factors are Air Service, Sea Trains, Rail to Keel, Plane to Keel, Rail to Truck, and the creation of new markets, also Free Lighterage limits around New York.

Historically speaking progress and development are hand maidens of transportation, throughout the ages. Locations selected were natural seaports on protected harbors taking advantage of the water highways. Then the slow moving caravan between such ports by land.

More than a century ago Post Roads and Toll Roads developed. A hundred years ago in this country the inland canals were added to the highways. About seventy-five years ago the Railroads and Steamships were perfected.

Fifty years ago, the modern free graded and surfaced roads began to replace the old toll roads, and they developed into the present wonderful system of state Highways, which in turn was accelerated about twenty-five years ago by the development and improvement of motor transportation. During the past five years we have witnessed the development of planes and airports. During the past year we have witnessed the acme of rail and keel transportation by the development of the Sea Train, a move toward economy in handling of shipments, and in the creation of new markets which is not competitive with existing methods, but a facility that enables certain goods of foreign origin to be saved, packed, and shipped at a profit

This paper was presented at a meeting of the Industrial Property Division of the National Association of Real Estate Boards at the Stevens Hotel in Chicago, Wednesday, June 14, 1933.

without rehandling from the plantations of Cuba to any part of the United States.

An appraiser should have but one value for a property, and that should be its Normal Market Value for the highest general use.

However we are often approached to appraise various types and classes of value according to the clients special interest or point of view such as:

1. Book Value
2. Economic Value
3. Going Concern Value
4. Insurable Value
5. Loan Value
6. Promotion Value
7. Reproduction Value
8. Sales Value
9. Special use value
10. Salvage value and many others

All of the various angles can be considered by an owner, mortgagee, or insurance adjuster, and are always weighed and considered by an appraiser.

For loan purposes, the lender will have to weigh the change of future increment or decrement as the case may be.

The insurable, reproduction, replacement, and salvage values are matters that effect the improvements only and often fall within the province of the engineer or other specialized expert.

The sales, or normal market value falls entirely within the province of an appraiser, and all of the above are tied up with it.

The promotion value if such exists is usually supposed to be related to the economic, but in light of later-day developments you can seldom recognize the relationship.

If we are honest with ourselves and clients we will recognize the foregoing, and be frank enough to set up clearly in our appraisal report, the angle of approach, or the purpose for which it was made. If that is done it will prevent many harsh and otherwise justifiable criticisms of our work by persons who may see it after it leaves our hands.

There is a famous saying, "that industry makes a town," It is only too true in many industrial cities, and if it is one industry that makes the town an appraiser should be extremely careful in the appraisal of such industry; or other smaller industries which may be dependent on the larger, or the general success of the municipality.

If we are consulted in connection with Capital Investment to be made in the construction of a plant we should advise that the buildings be so constructed and to a size and type that will lend themselves to the general requirements of diversified industries without major alterations. So that they may be more readily salable and at a price nearer their construction cost, if they are abandoned for the use they were constructed.

It is claimed in the East that the most economical and efficient size for an industrial building unit is a one story brick, or concrete 80 x 200, sprinkled, heated, of monitor type, approximately 30 feet high so a balcony or office may be added and have rail connection. That size and style is readily salable and adaptable for most any business, and several units may be grouped, or joined for straight line production by a large industry and therefore more easily sold or financed.

Another class that one has to appraise with care is the development that springs up around such things as the discovery of oil, natural gas, and minerals.

From the foregoing it can readily be seen the major or controlling element of value is seldom construction cost.

This fact is more pronounced in industrial than in most any other class of property.

We have gone through a period of combination and concentration of industry. The day of creation of enormous single plants by bringing together all allied processes connected therewith is passing. It is now considered more efficient to split up. Unemployment and resulting suffering caused through temporary shut down is recognized and felt in urban centers. This does not occur to the extent in suburban areas where labor may turn temporarily to the land for sustenance and occupation during idle periods.

We all recognize that the most important thing necessary when we are to appraise a property is to be able quickly and efficiently to gather complete and comprehensive data on it, in order to make a proper study on which to form our opinion. In these troubled times it is hard to concentrate and think of all the detailed information that we should secure for that purpose. Therefore it is desirable to have some consistent method and reminder.

In practice I have found the following useful:

An Outline To Be Used In Gathering Information Necessary In The Analysis of Industrial Properties

Location

1. Municipality
2. Population
3. Other municipalities near
4. Street or streets on which it fronts
5. Block and lot numbers
6. Pavement
7. Width of Street
8. Section of municipality located
9. Present use
10. Trend of development, past, present, and future
11. Zoning or other easements or restrictions

Facilities, for access or available transportation

1. R. R. Siding
2. Steamship Terminals
3. Freight Terminals
4. Nearest Main Highway
5. Nearest Airport
6. Trolley Service
7. Bus Service
8. R. R. Passenger Station
9. Available Auto Parking

Labor

1. Supply
2. Skilled
3. Unskilled

Power available

1. Water developed or potential
2. Steam plant or outside source
3. Electric, generating unit or for other sources

Land

1. Dimensions
2. Area
3. Shape
4. Terrain or contour
5. Kind of land
6. Solid upland
7. Filled
8. Marsh
9. Land under water
10. Soil and sub-soil conditions affecting construction

Buildings

1. Number
2. Dimensions
3. Area
4. Construction of each
5. Material
6. Stories
7. Ceiling Heights
8. Bays
9. Floor load
10. Size walls, columns, girders, etc.
11. Roof details
12. Foundation
13. Use for which each are suitable

Facilities

1. Gas
2. Sewer
3. Heat
4. Water
5. Electric Elevators
6. Artesian Wells
7. Original cost if available

Mechanical Handling Facilities

1. Cranes
2. Winches
3. Trestles
4. Shutes
5. Ramps
6. Etc.

General Information

1. Assessed value of property, land, buildings, personal
2. Maintenance costs, insurance rates, etc.
3. Original cost of property to present owner
4. Previous sales if any

Waterfront Property

1. Name of waterway
2. Distance of Channel
3. Depth of water at pier, bulkhead and channel
4. Frontage
5. Ownership of Riparian or Littoral Rights
6. Grant or Lease
7. Amount paid for same, date of acquisition, and present charge
8. Variations in tide or water levels.

Supporting Data

1. Sales—Property analyzed showing
2. Leases—their relativity.
3. Loans.
4. Other recorded transactions
5. Other appraisals
6. Asking prices of comparable properties in the vicinity

Appraisal Report

1. Prefaced by qualifications
2. Summary of findings
3. Certificate
4. Supporting data
5. Maps, charts, diagrams

Certificate

1. All statements and opinions are correct
2. No present or prospective financial interest
3. Employment not contingent upon amount valuation
4. Appraisal conforms to National Association Standards of Practice

In closing I will take the liberty of giving you a little advice. Besides making the appropriate certificate, oftentimes it might be well to add that this appraisal must not be published or circulated unless quoted in full. Settle the amount of compensation in advance. Secure a retainer if possible. Procure clear authorization to do the work. Have authorization contain the purpose for which the appraisal is desired; also an understanding that full cooperation be given. Secure copies of any existing leases or other sources of income. Assessed value of it and similar properties. Secure information on any former appeals, adjudication of values affecting the property or adjoining properties by commission or courts.

Then do a good job, using the best that is in you. Complying with the spirit and letter of instructions, by that I mean the purpose intended, not a suggestion as to value.

Set up your appraisal report in clear and concise language, using a graphic wherever possible instead of a written story. Remember a picture is more impressive than type. As the Chinese sage puts it, "a picture is worth a thousand words."

After the report is complete, let it get cold by turning to something else, then take it up and go over it critically, and if you understand it fully, and do not find any statements capable of misconstruction, you have done a good job.

However, do not hesitate to rewrite in whole or in part, remembering that after it leaves your hands you cannot correct it, and an outsider who sees it, will not ask, "was he hurried," or "how much did he get," but will judge you by the instrument without apology. It takes many years to build a reputation, but often a few minutes will destroy it.

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Proposed Code Of Fair Competition For The Profession And Business Of Real Estate Appraising

A Proposed Supplementary Code Under the General Code Affecting Real Estate Filed by the National Association of Real Estate Boards With the National Recovery Administration.

Article 1—Purpose

This code is established in order to effectuate the policy of Title I of the National Industrial Recovery Act, by increasing purchasing power through the payment of fair wages to employees, by limiting hours of labor, increasing, spreading, and sustaining employment, eliminating unfair practices, and restoring prosperity to all those concerned.

This code is one of a number of supplementary codes covering various divisions of the real-estate business. It has been filed as a supplementary code to assist the Administration in bringing together under one coordinated plan the various national groups and associations of interest and activities affecting real estate.

Article 2—Definitions

Real Estate.—Land, land and improvements, or improvements.

Interests and Activities.—Operation of real estate, by an owner to which this code is applicable and the substantial engagement as principal, fiduciary, agent, or counselor in the sale or leasing of real estate, renting and management of real estate, brokerage of insurance connected with the ownership and operation of real estate, subdivision and development of real estate, including erection of dwellings thereon, making, negotiating, and servicing of mortgages on real estate, appraisal of real estate.

Real-Estate Appraisal.—A determination of the utility, price, or value of real estate or an interest therein.

Profession of Real-Estate Appraising.—Engagement in making real estate appraisals for others for a fee, by an individual who has qualified under the standards and subjected himself to the regulations and discipline of a representative professional society such as the American Institute of Real-Estate Appraisers of the National Association of Real-Estate Boards.

Business of Real-Estate Appraising.—Substantial engagement in the making of real-estate appraisals for others for a fee, on the part of any individual, partnership, firm, association, trust, or corporation.

Member.—Any individual engaged in the profession, or any individual, partnership, firm, association, trust, or corporation engaged in the business of real-estate appraising who subscribes to or comes under the control of this code.

National Real-Estate Appraisal Code Committee.—The Committee charged with responsibility and authority to administer this code under the direction of the National Recovery Administration.

Subcommittees.—Committees appointed by cooperating associations, responsible and subject to the National Real-Estate Appraisal Code Committee.

Effective Date.—The second Monday after this code shall have been approved by the President of the United States.

Article 3—Maximum Hours, Minimum Wages

On and after the effective date of this code, maximum hours and rate minimum wages shall be as follows:

Occupation	Maximum hrs. per week	Minimum weekly wage				
		Cities Over 500,000	Cities 250,000 to 500,000	Cities 2,500 to 250,000	Towns under 2,500	
Clerical employees and field men, not including executives.	40	$15.00	$14.50	$14.00	$12.00	All wages in towns of less than 2,500 population to be increased by not less than 20%, provided that this shall not require wages in excess of amounts shown in next column to the left.
Junior office employees who are learning the business, 19 to 20 years of age, incl.	40	12.00	11.50	11.00	9.00	
Junior office employees who are learning the business, 16 to 18 years of age, incl.	40	10.00	9.50	9.00	7.00	

1. In the event that a state law specifies a lower maximum number of hours or a higher minimum wage for any type or class of employees, than is herein provided, no employees may be employed for more than the maximum number of hours or for a wage which is less than the minimum wage provided in such state law within that state.

2. In the District of Columbia and the following states, Maryland, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Texas, Oklahoma, Arkansas, Tennessee, and Kentucky, all rates shown shall be reduced 10%.

3. Due to seasonal variations, clerical and junior office employees may be worked more than 40 hours per week but not to exceed 48 hours per week at regular wages provided the total hours worked in any 6 months period shall not exceed an average of 40 hours per week.

4. The minimum rates of wages provided for herein shall not be interpreted so as to reduce wages now being paid which are in greater amount than the minimum wage provisions of this code, even though the hours of work are reduced.

Article 4—Labor Relations

Employees shall have the right to organize and bargain collectively through representatives of their own choosing, and shall be free from the interference, restraint, or coercion of employers of labor, or their agents, in the designation of such representatives or in self-organization or in other concerted activities for the purpose of collective bargaining or other mutual aid or protection.

No employee and no one seeking employment shall be required as a condition of employment to join any company union or to refrain from joining, organizing, or assisting a labor organization of his own choosing.

Employers shall comply with the maximum hours of labor, minimum rates of pay, and other conditions of employment approved or prescribed by the President.

After the effective date no member shall employ any person under sixteen years of age; provided, however, that where a state law specifies a higher minimum age no person below the age so specified by such law shall be employed within that state.

The right of employer and employee to bargain together free from interference by any third party shall not be affected by this code.

Article 5—Standards of Unfair and Fair Practices

Contingent Fees

Section 1. It is unethical for an

appraiser to accept an order to appraise a property if his employment or fee is contingent upon his reporting a predetermined or specified amount of value or is otherwise contingent upon any finding to be reported.

Sec. 2. It is unethical for an appraiser retained in cases where damages result from the exercise of the right of eminent domain, or result because of fraud, misrepresentation, etc., to make his compensation contingent upon the amount of, or to fix his compensation as a percentage of the damages which may be decreed by the Court deciding the issues in the case involved.

Sec. 3. It is unethical for an appraiser to accept an assignment to appraise a property when such assignment involves a bonus, a favor, or any special inducement other than a fair professional fee for the responsibility entailed and the work and expense involved.

Disinterested Appraisals

Section 1. It is unethical for an appraiser to issue an appraisal report if he is acting or intending to act in capacity of broker, loan broker, or manager, or if he has an ownership, contemplated future ownership, or any other interests in connection with the property appraised, unless such interest or interests be fully disclosed in the appraisal certificate.

Independent Appraisals

Section 1. It is unethical for appraisers who have been retained to make independent appraisals of a property to collaborate or consult with one another with reference to the appraisal, or to make use of the findings or figures developed or reported by any appraiser so retained.

Sec. 2. It is unethical for appraisers who have been retained to collaborate in the making of an appraisal to issue separate appraisal reports on the property appraised. They should sign a joint report, or if there be dissenting opinions these opinions should be stated in the report rather than in separate documents apart from the report.

Hypothetical Appraisals

Section 1. It is unethical for an appraiser to issue an appraisal report with the value predicated on assumed rentals and expenses at variance with his best judgment of the probable market at the time at which the reported value obtains.

Sec. 2. It is unethical for an appraiser to issue an appraisal report on an investment property based on an earning expectancy which does not analyze and take note of existing leases.

Sec. 3. It is unethical for an appraiser to issue an appraisal report in which the reported value is based on the completion of public or private improvements which are not assured unless he clearly states that the appraisal is made on that hypothesis. Provided that, in any event, he must state in his report the conditions with regard to such improvements which he assumes in determining the value reported.

Sec. 4. It is unethical for an appraiser to issue an appraisal report in which the reported value is based on the assumed absence of any legal restriction, unless such assumption is reasonable or in accord with legal opinion accepted by the appraiser, and unless the legal authority and his opinion are quoted in the appraisal certificate, and it is expressly stated that the appraisal is contingent on such lawful restriction being changed or absent in accordance with the assumption.

Fractional Appraisals

Section 1. It is unethical for an ap-

praiser to issue an appraisal report on a fractional part of a property unless he specifically states that the value reported is invalidated if used in making a summation appraisal of the property as a whole.

Sec. 2. In appraising the security for a loan it is unethical for an appraiser to issue a certificate covering anything less than all of the property designated as security for the loan.

Sec. 3. In particular, in appraising the security for a lease-hold loan, it is unethical for an appraiser to issue a certificate of value of the improvement only, omitting the value of the leasehold, which latter may be positive, zero, or negative.

Summation Appraisals

Section 1. It is unethical for an appraiser to issue an appraisal report on a property in which the total reported value is derived by adding together the values of fractional parts of the property unless it is shown that no incompatible conditions were assumed in making the fractional appraisals.

Sec. 2. In particular, in appraising the security for a loan, the market price, market value, or other economic value of a property, it is unethical for an appraiser to issue an appraisal report on a property in which the total reported value is derived by adding together the market value of the land (or leasehold) as if unimproved, or the value of the land (or leasehold) as if improved to the highest and best use, and the reproduction cost of the improvements less accrued structural depreciation, unless other and conclusive evidence is given that this result equals the total value of the property considered as a unit.

Sec. 3. The restrictions of sections 1 and 2 immediately above do not apply where the appraisal report clearly states that the valuation is for the purpose of replacement or physical cost such as for fire-insurance purposes, recreation of equivalent physical units, or the like.

Economic Probabilities and Value of Investment Property

Section 1. It is unethical for an appraiser to issue an appraisal report on a construction project which does not give the appraiser's opinion of the economic soundness of the project.

Sec. 2. It is unethical for an appraiser to issue an appraisal report on an investment construction project without also reporting the assumed date of normal occupancy, his estimate of the reasonably expected earnings of the project upon completion as well as upon attaining the assumed normal average occupancy, and his estimate of net earnings or deficits during the period from completion to normal occupancy.

Sec. 3. If the value reported is the value which in the opinion of the appraiser will prevail when normal occupancy is attained, it is unethical for the appraiser to report the value as of any other than the date when it is assumed such normal occupancy will have been attained.

Duty to Hold Findings Confidential

Section 1. It is the duty of an appraiser to hold as confidential the fact that he has been employed to make an appraisal, his results and other findings, until released from his obligation by the client or by due process of law.

Expert Testimony

Section 1. In giving testimony as to the value of real property in any court or before any other legally constituted tribunal, an appraiser may follow rules of procedure as to appraisal method legally binding in that jurisdiction even though such rules may be at variance with the provision of these Standards.

Professional Identification

Section 1. It is unethical to use any trade name or insignia of membership in any organization unless entitled to use it. It is unethical to use the words "Certified Appraiser" or other title of similar purport unless the source of such certification or other identification be disclosed at the same time.

Contents of Appraisal Certificates

Section 1. It is unethical for an appraiser to omit any of the following from his appraisal certificate:

(1) An unequivocal identification and reasonably complete description of the property appraised.

(2) A statement of any contingent, assumed, or nonexisting conditions upon which the appraisal has been based. For example: The validity of legal, engineering, or auditing opinions used; the completion of projected public or private improvements; new improvements to be erected or remodeling to be done; and the like.

(3) The date or time at which the value obtains.

(4) The amount of the value.

(5) A statement that the undersigned appraiser has no present or contemplated future interest in the property appraised; or a statement disclosing all such interests which the undersigned appraiser may have in the property appraised.

(6) A statement that the appraiser's compensation and employment are not contingent upon the amount of the value reported, nor are either contingent upon the amount of damages or other benefits resulting from awards by arbitrators, through judicial decree, mortgage, or other advances, and the like—except as may be fully set forth in the report.

(7) In case the property appraised is a fractional part of the property of a type covered by this code, a statement that the value reported is invalidated if used in making a summation appraisal of the property as a whole.

(8) A signature clearly and definitely placing the responsibility for any statements or opinions and for the valuation given.

Article 6—Commissions and Fees

Uniform minimum fees shall be established by local associations or subcommittees in accordance with local custom and practice. If such schedules of minimum fees established by local associations or subcommittees are submitted to the National Real Estate Appraisal Code Committee and are by it approved, they shall thereupon become a part of this code. Until such fees shall have been so established, the present minimum schedules now in effect in the various communities shall continue.

Article 7—Collection of Data

The National Real Estate Appraisal Code Committee shall have authority to make surveys and to compile such reports as it may deem necessary for the accomplishment of the purposes of the National Industrial Recovery Act. The Committee may also collect such statistics and information as it may deem desirable in order to develop recommendations for the improvement of real-estate interests and activities and may assess against all members, equitably, the expenses incident to the administration of this code under such rules and regulations as may be approved by the President under Section 10-A of Title I of the National Industrial Recovery Act.

Article 8—General Provisions

No provisions of this code shall be interpreted or applied in such manner as to promote a monopoly or to elimi-

nate or oppress small enterprises and will not operate to discriminate against them and will tend to effectuate the policy of Title I.

This code may be amended from time to time by the National Real Estate Appraisal Code Committee subject to the approval of the President.

The President may from time to time cancel or modify any order, approval, license, rule, or regulation issued under Title I of the National Industrial Recovery Act and any of the provisions of this code shall from time to time be cancelled or modified to the extent necessary to conform thereto.

To the extent required or permitted by or under the provisions of Title I of the National Industrial Recovery Act, the provisions of this code shall apply to and be binding upon every member whether or not the member shall have signed an agreement to comply with this code.

Article 9—Administration

The administration of this code shall be vested in a committee to be known as the National Real Estate Appraisal Code Committee, which shall consist of six members, elected so as to give representation to the various sections of the United States, from nominations made by the President of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards and approved by the Board of Directors of the National Association of Real Estate Boards. This Committee shall have the authority and powers conferred upon it in this code and such other powers and duties as may be necessary to administer the code, subject however to the approval of the General Real Estate Code Committee as set up in the General Code Affecting Real Estate to which this Code is supplementary. The Committee may hear complaints against members arising out of alleged violations of this code or of the National Industrial Recovery Act and may cause such complaints to be arbitrated and may initiate proceedings before the appropriate governmental agencies to prevent or to punish such violations.

Subcommittees. — Subcommittees may be appointed by local groups or associations for specific purposes with the approval of the National Real Estate Appraisal Code Committee, which committee shall appoint one of its own members as an ex-officio member of such subcommittee.

National Association of Real Estate Boards,
August 29, 1933.

National Recovery Administration,
Control Division, Washington, D. C.

Gentlemen: In submitting this code of fair competition for the profession and business of real estate appraising the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards desires to call the attention of the Administration particularly to the following:

The American Institute of Real Estate Appraisers is a professional organization requiring its members to qualify under high standards and to subject themselves to regulation and discipline. So far as is known to the Institute it is the only organization or society covering the field of real-estate appraising in the United States. It believes that it is representative of the highest type of individual Real Estate Appraisers, who in a professional capacity, appraise real estate.

Although we believe that professional occupations are exempt from the provisions of the N. I. R. A., there is a growing business which involves the employment of clerical help, that through the use of standardized methods makes appraisals on what might be termed a "wholesale" basis, which probably should come under the provisions of the N. I. R. A. and it is to cover this field that this code is presented.

The establishment of definite and adequate standards of practice and ethics in this profession and business is of major importance to all allied interests and activities affecting Real Estate and it is hoped that the standards set out in this code will receive the careful consideration of the Administration at the proper time.

Particular attention is called to the copy of a letter of transmittal accompanying the General Code affecting Real Estate, to which the Appraisers' Code is supplementary.

This Institute desires to cooperate with any other interest when it becomes proper and necessary to complete the details of a code for the Appraisal business.

Very truly yours,
American Institute of Real Estate Appraisers of the National Association of Real Estate Boards,
By Philip W. Kniskern, President.

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Current Articles

The full names of the magazines indicated by initials on these pages are given below:

A. F.	Architectural Forum	Monthly
B. & B. M.	Buildings and Building Management	Monthly
B. O.	Building Operation	Monthly
C. E.	Civil Engineering	Monthly
C. M.	Construction Methods	Monthly
C. P.	City Planning	Quarterly
E.	The Economist	Weekly
J. L. E.	Journal of Land and Public Utility Economics	Quarterly
N. R. E. J.	National Real Estate Journal	Monthly
R. & B. G.	Real Estate Record and Builders Guide	Weekly
R. E.	Real Estate	Weekly
S. B. J.	Savings Bank Journal	Monthly
W. C. N.	Western Construction News and Highways Builder	Semi-monthly
Y. L. J.	Yale Law Journal	Monthly

Copies of the magazines in which these articles appear may be secured from the Library of the National Association of Real Estate Boards, 59 East Van Buren St., Chicago, Ill. The price listed includes the price of the magazine and a small service charge for mailing and postage. Subscriptions may also be placed with the National Association.

An Analysis of Costs in the Pricing of Apartments. CHARLES W. LANGE. B. & B. M. July 1930, p. 40. $0.70. An article which eliminates guesswork by a thorough study of costs and other important factors.

A Check List for Appraising Industrial Property. PERCY A. GADDIS. N. R. E. J. July 1933, p. 33. $1.20. An address before the Industrial Property Division of the National Association of Real Estate Boards at the Chicago Convention.

Cycles in Real Estate Activity: Los Angeles County. LEWIS A. MAVERICK. J. L. E. February 1933, p. 52. $1.45. The author is Assistant Professor of Economics, University of California, Los Angeles, Calif.

Depreciation by the Insurance Method. J. F. BRENNAN. J. L. E. February 1933, p. 16. $1.45. Of interest in the appraising of public utilities.

Distribution of Costs of Assessable Improvements. A Symposium of Practices in American Cities—Difficulties and Possible Remedies. C. E. April 1933, p. 222. $0.70. What is a benefit assessment? by P. H. Cornick: Practice developed in New York City by H. H. Smith; Bond issues aid street work in St. Paul by G. H. Herrold; Kansas City's assessment plan by G. G. McCaustland; Direct vs. ad valorum method in California by O. D. Keese; Assessing public benefits in Illinois by G. C. D. Lenth.

Earthquake Effects. J. I. BALLARD. C. M. April 1933, p. 32. $0.30. Appraisal made of Southern California's earthquake damage. Observations on modes of failure of the various types of buildings.

18-Year History of a Chicago Apartment Building. MARK LEVY. N. R. E. J. September 1933, p. 49. $0.70. Presented at the recent Chicago Convention meeting of the American Institute of Real Estate Appraisers.

How To Appraise Real Esate. PELL THOMPSON. S. B. J. July 1933, p. 26. $0.55. Mr. Thompson is Vice-President of Pease & Elliman, Inc. New York City, N. Y.

Land Valuations in the Borough of Manhattan: Waterfront Properties Lag in Changing Trends. R. & B. G. June 3, 1933, p. 6. $0.70. "The cheapest land in Manhattan today, comprising 20% of the Island, is to a large extent river frontage or located immediately adjacent thereto."

Landlords' Claims in Reorganizations. WILLIAM O. DOUGLAS AND JEROME FRANK. Y. L. J. May 1933, p. 1003. $1.00. A "meaty" article reviewing the legal practices of tenants in avoiding leases by bankruptcy and receivership.

Location and Planning of Industrial Areas. W. C. K. BAUMGARTEN. C. P. April 1933, p. 49. $0.95. Factors determining the location of industries; centralization vs. decentralization; area requirements of industries; railroad services in industrial districts; examples of planned industrial districts; recentralization possibilities.

An Economic Theory of Land Utilization and City Growth. HENRY A. BABCOCK. E. June 30, 1933, p. 4. $0.30. A theory expressed in mathematical terms.

Manhattan Real Estate Trends Show Downward Course. R. & B. G. September 9, 1933, p. 3. $0.70. A study of transfers, mortgage loans and extensions and foreclosures.

Misuse of Highest and Best Use. M. L. COLEAN. R. E. September 23, 1933, p. 14. $0.30. "Desire for too rapid increase in valuation has lead to abuse of much used appraisal theory and detracted from real estate's stability.

A New Plan for Grading the Loan Value of Farms, J. C. READEY. N. R. E. J. May 1933, p. 35. $1.20. Contains a valuable chart for grading farms for loans.

Preventing Disintegration of Cities. HARLAND BARTHOLOMEW. C. E. May 1933, p. 259. $0.70. Unplanned expansion of cities results in the blighted areas —what is to become of them? Includes a study of the percentage of city areas given over to the various uses. The author is Engineer of the City Plan Commission, St. Louis Mo., and author of "Urban Land Uses".

Progress on Sewer-Rental Legislation. W. C. N. April 10, 1933, p. 185. $0.30. Recent legislation in Oregon, Montana, Idaho, California, Colorado, Utah and Washington.

Rainfall and Crop Yields. I. GUTMANN. C. E. June 1933, p. 326. $0.70. An analysis of long records shows little correlation. The author is Associate Member, American Society of Civil Engineers and Associate Editor, Engineering Index, New York City, N. Y.

Real Estate Appraisal Code. N. R. E. J. September 1933, p. 39. $0.70. A Supplementary code under the general code affecting real estate filed with the National Recovery Administration.

Recent Trends in City and Country Populations. W. RUSSELL TYLOR. J. L. E. February 1933, p. 63. $1.45. The suburban trend is becoming a significant factor in opinions of future values.

The Trend in Operating Costs of Apartment Houses. ARTHUR KRUGGEL. B. O. April 1933, p. 7. $0.45. Mr. Kruggel states that "rental prices have touched the bottom or nearly so".

Trends in Hotel Operating Costs and Administration. E. August 4, 1933, p. 11. $0.30. Analysis by Cornell University. Shows average returns from hotel management and ownership, broken down by units of sales.

Trends in Present-Day City and Regional Planning in United States, 1932. H. S. BUTTENHEIM. C. P. April 1933, p. 73. $0.95. City planning as an economic source; contracted activity; expanded outlook; land-planning movement; our decreasing population growth; way out of slums; plans for more planning; new deal for leisure time.

The Ups and Downs of Chicago Real Estate and Notes on What Caused Them. A. F. August 1933, p. 141. $1.20. Studies made by the Chicago Title and Trust Co.

Valuing Office Building Space by the Formula Method. LEO J. SHERIDAN. E. July 14, 1933, p. 11. $0.30. Mr. Sheridan's report as Chairman, Income Production Committee, National Association of Building Owners and Managers.

What Are the Appraiser's Duties Today as to Value? FRANCIS K. STEVENS. R. & B. G. February 4, 1933, p. 5. $0.70. The author is Vice-President of Brown, Wheelock, Harris & Co., Inc.

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Book Reviews

Konstam, E. M. and Rowe, Michael E. NEW LAND VALUATION AND LAND VALUE TAX. London: Butterworth & Co. 1931. 257 p. $4.60.

The above book deals with Part 3 of the Finance Act of 1931, and shows each section as a whole, with notes of explanation following each section.

The land value tax is intended to be a tax upon the ownership of land at the rate of one penny in the pound, or less than one-half of one per cent on the fair cash market value of the land without buildings, with certain exemptions by virtue of ownership or use and other taxes levied.

This Act was passed in July, 1931, by the labor government at that time in power, to raise additional national revenue, provided that the machinery for levying this tax be immediately put into motion, that the valuation date at which the land values were to be valued were as of January 1, 1932, but that the first year of charge for which the tax would be collected was the financial year of April 1, 1933 to March 31, 1934.

Work was immediately started in setting up the machinery to put the Act into effect, but the latter part of 1931 the labor government passed out and the national government came into power. In December, 1931, the national government caused the order to be suspended for the reason that the cost of putting it into effect would be one million pounds before any revenue was derived, and that such a program was not in keeping with the economy platform upon which they came into power. It is said, however, that the national government was not in sympathy with this land tax, because they did not consider it in keeping with their conservative policy.

This tax is similar in character to the general property tax now in effect in this country, with the exception that this Act is for the purpose of raising national income, while our general property tax is for the purpose of local taxation of real estate based upon the income or income value of the real estate. There is nothing particularly helpful in the theory of this tax, as far as application to solving taxation problems in the United States, and this is something of another real estate tax of a national character, and real estate in the United States is already overloaded with local general property taxes, although even on the income basis, local real estate taxes in England are much higher than in the United States.

Although the operation of this Act was suspended, it is still on the books, and it may at any time be put into operation. However, if, when, and as it is, it will merely be an experiment in England of trying out general property tax as a means of raising national revenue.

For those interested in the detail of the valuation system as set up, I have prepared the following summary outline of the detailed operations of the Act.

General: The land value tax is intended to be a tax upon the ownership of land and to be borne by the person deriving profit from the ownership of land in proportion to such degree of ownership as he may possess. The land value is to be determined by the Commissioners of Inland Revenue in accordance with the Act which directs that they shall value a land unit in separate occupation or ownership without regard to "buildings" on that particular unit. For the purposes of assessment the land value, which is roughly the fair cash market value of the land without buildings, is subject to deductions of four times the annual value (which value includes annual rental value of building) or in the case of agricultural land a "cultivation value" is deductible if in excess of the above. The remainder is taxable value which is to be assessed at the rate of one penny in the pound or less than one-half of 1%. Certain exemptions are granted by virtue of ownership or use.

Dates: The Valuation Date at which the land values were to be valued was 1st January, 1932, or as soon as may be thereafter.

The first year of charge—the financial year 1st April 1933—31st March 1934 and the first person liable to pay the tax will be the "owner" ascertained as on 1st January 1932, payable on 1st July 1934 if assessed by 1st June in that year otherwise one month after asesssment.

The second Valuation Date is to be 1st Aug. 1936, thereafter at intervals of 5 years. The first valuation period is from 1st April 1933 to 31st March 1937 while subsequent periods will be quinquennial.

Owner: The owner in fee simple of land not subject to a lease or agreement for lease of over 50 years which has commenced as of the valuation date.

If subject to such a lease that lessee is the "owner". When two or more such leases are in effect the owner is he whose term first ex-

pires. A lease terminable by the lessee but not by the lessor, if before 50 years have expired, is such a lease. If granted for more than 50 years but is terminable by the lessor under 50 years, the lessee is not an "owner"; so also if both have the right to determine it at 50 years or earlier. If leased for less than 50 years but lessee has option to renew for further terms that would exceed 50 years in all, such is over 50 years and lessee is "owner"; so also if such option has been exercised. A lease determinable after death or marriage of any person is **not** a lease over 50 years. But in Scotland in the case of land subject to a life-rent, the life renter is the "owner".

Where the estate owner is the public trustee not entitled to act in the trust, the person in receipt of the rents incident to the public trustee's estate, or if no rents, this person in occupation, is deemed "owner". So also if the estate owner is the official trustee of charity lands the managing trustees or committee of management will be "owners". An estate of any person who died intestate and which is vested in the Probate Judge will be "owned" by the appointed administrator as from the date of the death.

An infant cannot be an owner.

A mortgage of an interest which would constitute ownership and who is in possession of that interest or in receipt of the whole of the rents and profits will be the "owner" even if a receiver is in receipt of rents.

Owners such as above are these chargeable with the tax and are to be served with notices of the land value in the 1st year of charge and in subsequent years in which changes are made without being required to request such notice.

They have full rights of objection and appeal and are entitled to inspect the register free of charge.

Reversioner: The person who would become an "owner" if it be assumed that the actual "owner" does not exist Reversioners are not directly chargeable with the tax but it may be recouped against them, as by deduction of rent in the payment following the charge, by the "owner" or by a reversioner closer to the "ownership" status. The amount of recoupment is one-half of a year's rent under the lease as at the date of valuation or the actual amount of the tax, whichever is the less. In Scotland the right of recoupment applies also to few duties payable to superiors in the same manner as to rents under a lease:

Reversioners may be served with notices upon request and have rights of objection and appeal.

The Land Unit: Generally a piece of land in separate occupation, but if in different "ownerships" or "owned" by the same person in different ways, each part is to be a land unit in itself.

A building such as a block of flats or offices which is divided horizontally into different occupations or "ownership" or both, with its curtilages is to form a single land unit.

When two or more pieces of land in separate occupations but "owned" by the same person and the C. of I. R. are satisfied that a prudent owner would sell them in one lot, they may treat the whole as one land unit.

The Land Value: Primarily the estimated selling price in the open market as at the valuation date, with vacant possession. Any existing lease or tenancy is to be disregarded together with restriction imposed therein. The estimate assumes a purchaser would be free at once to develop and build upon the land to any extent of which the land is capable subject however to rights of certain kinds enjoyed with regard to it by other land units such as easements. It is treated as being sold subject to tithe or tithe rentcharge which attached to it, also unredeemed land tax but not to mortgages or charges. Imperial taxes and poundage of local rates will have some influence. Consideration will be given to the following incumbrances if binding on a purchaser.

(a) easements including right of withdrawing support.
(b) rights of common, customary rights, public rights of sheepwalk.
(c) liability to repair highways by reason of tenure.
(d) liability to repair the chancel of any church.
(e) liability in respect of the repair or maintenance of embankments or sea or river walls.
(f) liability to pay any drainage rate made under the Land Drainage Act, 1930, or any other enactment or award.
(g) restrictions on user which have become operative imposed by or in pursuance of any Act or by any agreement such as Town Planning Acts or Building By-laws (not being a lease to which the unit is subject).
(h) Any incumbrance created by mineral or mineral wayleaves lease in so far as it affects rights of support or right to receive compensation for damage to the surface.

Buildings: Generally are not considered to exist on the land unit but the valuation shall be made upon the basis that all the circumstances affecting all land not comprised in the unit were the actual circumstances at that date. Thus a land unit which is the site of a

dwelling house is assumed to have no buildings upon it; the adjoining houses are treated as being in existence but not as being impossible to sell with vacant possesson by reason of the existing leases or statutory tenancies.

In the land unit being valued it is assumed (if not agricultural) that there are (1) no buildings, erections or works except roads (unless such roads are entitled to be used by the occupier alone) and except buildings, erections and works necessary for the reclamation of land or the protection thereof from flooding or for maintaining the stability of the unit.

(2) grass, heather, gorse, sedge or other natural growth upon the land but nothing else.

Works for agricultural purposes are treated as existing: they include ditches, fixtures, fences and fence walls. Apart from these works, buildings and erections are treated as non-existent for purposes of land value, although they may be included in cultivation value.

Sewers and drains are works. Trees are to be treated as being present only upon agricultural land.

The sale price does not include: (a) the value of minerals as such or of mineral wayleaves; (b) the felling values of any trees; (c) value of shooting or fishing rights; (d) the value of any tillage or manure or of improvements for which any sum would by law or custom be payable to any outgoing tenant. (Rat. & Val. (Apport) Act. 1928.)

Agricultural Land means any land used as arable meadow or pasture ground only, land used for a plantation or a wood or for the growth of saleable underwood, land exceeding ¼ acre used for the purpose of poultry farming, cottage gardens exceeding ¼ acre, market gardens, nursery grounds, orchards or allotments, including allotment gardens, within the meaning of the Allotments Act 1922, but does not include land occupied together with a house as a park, gardens (other than as aforesaid), pleasure grounds, or land kept or preserved mainly or exclusively for purposes of sport or recreation, or land used as a race-course: and for the purposes of this definition the expression "cottage garden" means a garden attached to a house occupied as a dwelling by a person of the laboring classes.

When valuing agricultural land a cultivation value has to be given along with the land value.

Agricultural land is divided into three classes.

(a) the use of land as arable, meadow or pasture ground, or for a plantation or a wood or for the growth of salable underwood, or in relation to land exceeding ¼ acre for poultry farming;

(b) the use of land as market gardens, nursery grounds or orchards;

(c) the use of land as cottage gardens exceeding ¼ acre, or as allotment gardens, including allotment gardens within the meaning of the Allotments Act 1922 and includes all purposes directly connected with any such class as aforesaid.

Cultivation Value is the land value that would have been ascertained if:

(a) there had been a restriction imposed by law on the user of the agricultural land permanently prohibiting its use for any purposes other than agricultural purposes of the class or classes for which it was actually used at the valuation date; and

(b) It had not be assumed that there were **not** upon or in the unit any agricultural cottages or agricultural buildings and solely in connection with the agricultural purposes of the class or classes aforesaid.

The definition of agricultural land as applied to cultivation value includes an agricultural cottage, so occupied if on or contiguous to that land; agricultural cottage being a house used as a dwelling-house of a person who is employed in agricultural operations on that land in the service of the occupier thereof and is entitled whether as tenant or otherwise, so to use the house only while so occupied; agricultural buildings occupied together with the land or must be or form part of a market garden.

Assessed Value: The land value is to be taken from the entries in force for the unit on 1st January in the year of charge and reduced by a calculation based either on the annual value for purposes of Schedule A, income tax or on the cultivation value shown in those entries.

The Annual Value is, in England, (1) The amount of the rent by the year at which the "lands are let at rackrent and the amount of that rent has been fixed by agreement commencing within the period of seven years

preceding the fifth day of April next before the time of making the assessment; or (2) If they are not let at a rackrent so fixed, then the rackrent at which they are worth to be let by the year.

While, in Scotland, the annual value of any lands and heritages has been assessed on the basis that local rates in respect thereof are payable by the landlord, that value shall be reduced to such amount as would have been assessed if those rates had been payable by the occupier.

Amount of Tax: Where the land unit does not comprise agricultural land the annual value is to be multiplied by four and the resulting sum is to be deducted from the land value as shown in the entries; in general, the land value tax is to be charged at one penny in the pound on the remainder, but if that remainder is less than ⅛ of the land value, the tax is to be charged on ⅛.

Where the land unit comprises agricultural land the cultivation value shown in the entries is to be deducted from the land value and the tax is to be charged on the remainder, unless such reduction as is indicated above would result in a smaller sum, in which case the smaller sum is to be charged.

A pending objection or appeal will not change the amount chargeable and the owner must pay on that amount. Subsequent changes are taken care of by repayment or additional assessment.

Exemptions are granted by virtue of (1) ownership by certain bodies or persons; (2) the user of the land unit.

(1) The land must not be subject to a long lease and shall be owned by:

(a) any Government Department or by any public officer or body on behalf of H. M. for Government purposes, or is owned by trustees in trust for naval, military or air force purposes, or by H. M. in right of the Crown.

(b) any local authority or any drainage board constituted under the Land Drainage Act, 1930, is to be treated under that Act as having been so constituted by any Special Act or order having the force of an Act, to construct erect or maintain as its principal business any embankment or sea or river wall.

(c) by the National Trust incorporated by the National Trust Act, 1907.

(d) a body of persons authorized by any special Act or order having the force to construct, erect or carry on as its principal business any railway, canal, inland navigation, dock, harbor, tramway, gas, electricity, water or other public undertaking.

(e) a body of persons carrying on as its principal business the provision of houses for the working classes and prohibited by its constitution or rules from issuing any share or loan capital with interest or dividend at a rate exceeding 5% p. a. or such higher rate as may be authorized by Treasury.

(f) hospital, public school or alms-house or vested in trustees for charitable purposes so far as the same (rents or profits) are applied to charitable purposes only.

(g) a registered friendly society.

(2) Exempted during period land unit is used as:

(a) a playing-field under some agreement with the owner which as originally made or as subsisting at the date of the commencement of this Act would not be determined for a period of at least five years, or if there is evidence that other circumstances render it probable that the land will continue to be so used for a period of one year or more.

(b) is used wholly or mainly for the purpose of public religious worship.

(c) is used as a park, garden or open space which is open to the public as of right.

(d) is used as a churchyard or burial ground.

(e) is land which is a disused burial ground with the meaning of the Disused Burial Grounds Act, 1884, on which no building has been erected.

When the Commissioners are satisfied that the land unit is exempt it will not be valued. Should it become subject to tax, the tax will be charged as from the date the unit ceased to be exempt except in the case of playing fields. "A playing field" is land used mainly or exclusively for purposes of open-air games or recreation other than horse, dog, motor or motor-cycle racing, or polo or coursing. If the use so described ceases, five years tax will be charged in the following year of charge unless the period of exemption has been shorter in which case the tax will be multiplied by the number of complete years of exemption. This does not prevent tax being charged for the remainder of the broken year in which the exemption ceased.

An owner or reversioner whose tax does not exceed 10% will be relieved of tax.

Exemption by Recoupment: Tenants who have been charged to tax have a right to recover tax against the reversioner to an amount not exceeding 1/12 of the rent payable by them; if the actual tax is less, such is the amount recoverable.

Persons exempt by user who have been recouped against are relieved of tax in excess

of what they cannot recoup from their reversioners.

Record and Register of Valuation: Entries will have description of land unit, land value and cultivation value. Owners have right to inspect at all reasonable times free of charge. Copies of actual or proposed entries are to be served on owner unless same entries as previously served, and service will be to one of joint owners unless request is written. Reversioners will be served on request.

On land unit being divided part owners will be served.

The entries may be amended by Commissioners before they cease to be subject to objection or appeal.

Service is essential for entries to be in force, and may be made written three years from date of charge.

Objections may be made by persons on whom service is made or entitled to be made written 42 days of service or 60 days after deposit of register if no service is made or 60 days after appointment of estate administrator. Grounds: (1) Land value incorrect; (2) Cultivation value incorrect; (3) No cultivation value shown; (4) Two or more pieces of land in different occupations ought not to have been treated as single land unit.

As regards revised entry, which applies to division of unit, the only ground of objection is that former land unit has been wrongly apportioned as to land or cultivation value.

No objection can be made on grounds of exemption—remedy is appeal against assessment but it is advisable to object also against value.

The Commissioners may agree with the owner's value submitted and thus satisfy him. Otherwise they give notice of refusal and the owner may then appeal to a referee within forty-two days, who may award costs. Dissatisfaction with the referee's decision must be expressed immediately to be valid and a stated case may be required. Appeal from the referee may be only on a question of law and lies.

(1) To the High Court

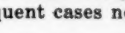
(2) To the County Court if value is not over 500 pounds.

Appeals from High Court or County Court are to Court of Appeal.

Production of Instruments: Transfers on sale of fee simple or grant or transfer on sale of lease for seven years or more as from 1st Sept. 1931 require production of instruments to Commissioners for stamping under penalty of their being refused in evidence in subsequent cases not criminal.

Walter R. Kuehnle, M. A. I.

Chicago, Illinois, June 20, 1933.



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A full discussion of the theory and practice of appraising many types of property. $5.00.

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J. WILLIAM MARKEIM.....4th and Federal Streets
PHILIP ZINMAN.....2500 Federal Street

East Orange
FRANK H. TAYLOR.....520 Main Street
HARRY A. TAYLOR.....520 Main Street

Elizabeth
JOHN K. LEEDS.....10 Westfield Avenue
B. B. MILLER.....215 Broad Street
BURTON THOMPSON.....18 W. Jersey
MAX TIEGER.....207 Broad Street

Hackensack
ISIDORO QUINTANA.....Court House Square

Jersey City
PERCY A. GADDIS.....30 Journal Square, Room 300
D. E. C. SOMERS.....700 Bergen Ave.

Linden
JOHN FEDOR.....540 S. Wood Avenue

Metuchen
J. K. POWELL.....Main and Middlesey

Newark
MURRAY APFELBAUM.....786 Broad Street
JOHN J. BERRY.....930 Broad Street
JOS. L. FEIBLEMAN.....17-19 William Street
FRANKLIN HANNOCH, Fiedler Corp.....14 Park Pl.
LOUIS HERMAN.....60 Park Place
JOHN A. LINNETT.....29 Elizabeth Street
E. J. MAIER.....40 Clinton Street
JOEL L. SCHLESINGER.....31 Clinton Street
HARRY J. STEVENS.....478 Central Avenue

New Brunswick
JAS. A. O'CONNELL.....392 George St.

Perth Amboy
MORRIS GOLDFARB.....279 Madison Avenue

Ridgewood
SAMUEL S. WALSTRUM.....

Rutherford
CHARLES A. VAN WINKLE.....1 and 2 Station Sq.
THEODORE VAN WINKLE.....1 and 2 Station Sq.

NEW YORK

Brooklyn
STEPHEN F. BARRERA.....191 Joralemon St.
GEORGE BAUR.....2609 Clarendon Rd.
JAMES B. FISHER.....160 Remsen Street
GEORGE H. GRAY.....310 Ashland Place
BERNARD F. HOGAN.....431 Fifth Avenue
ARTHUR J. HORTON.....1214 Flatbush Ave.
GEORGE S. HORTON.....59 Lafayette Ave.
FRANK M. McCURDY.....158 Remsen Street
JAMES F. MATTHEWS.....215 Montague Street
M. C. O'BRIEN.....798 Nostrand Ave.
CHARLES PARTRIDGE.....397 Flatbush Avenue
LEWIS H. POUNDS.....32 Court Street
FENWICK B. SMALL.....1124 Myrtle Ave.
R. W. WALDEN.....162 Remsen Street

Buffalo
A. P. ALLINGHAM.....63 Niagara Street
PERCIVAL V. BOWEN.....1006 Ellicott Sq.
WALTER W. COHN.....155 Pearl Street
CUTHBERT E. REEVES.....2202 Liberty Bank Bldg.

Jamaica, L. I.
WM. F. MacDERMOTT.....89-70 162nd St.
GRANVILLE H. ROME.....160-09 Jamaica Ave.

Mechanicville
FRANZ H. MOAK.....37 N. Main Street

New York City
HARRISON S. COLBURN.....30 Church Street
A. N. GITTERMAN.....45 E. 49th Street
BRACTON GOLDSTONE.....22 E. 40th Street
FRANK D. HALL.....393 Seventh Ave.
PHILIP W. KNISKERN.....15 W. 44th St.
IRVING I. ROSENBAUM.....384 Broadway

Yonkers
PAUL WEGENER.....2 Hudson Street

NORTH CAROLINA

Charlotte
S. T. HENDERSON.....111 Hermitage Road

Winston Salem
CHARLES G. FLEETWOOD.....518 Reynolds Bldg.
C. S. NOBLE.....674 Manly St.

OHIO

Akron
CLAUDE L. BAKER.....1185 Brown St.
JOHN C. KYLE.....520 S. Firestone Boulevard
W. F. VOGES.....1109 S. Main Street

Alliance
L. D. SCRANTON.....341 E. Main Street

Canton
MARK HAMBLETON.....417 Mellett Building
WILLIAM J. UEBELHART.....301 Mellett Building

Cincinnati
HOWARD R. BURGESS.....104 Neave Bldg.
FRED DROEGE, JR.....104 Neave Bldg.
JAMES W. FARRELL.....1142 Herschel Ave.
JOHN H. FREY.....1334 Herschel Avenue
JAMES J. GROGAN.....S. W. Cor. 5th & Main Sts.
JOSEPH B. HALL.....35 E. 7th Street
P. LINCOLN MITCHELL..S.W. Cor. 5th & Main Sts.
RUSSELL PRICE.....S. W. Corner 5th & Main Sts.
WALTER S. SCHMIDT.....5th and Main Streets
LEWIS R. SMITH.....409 American Bldg.
JOHN B. SPILKER.....104 Neave Bldg.

Cleveland
BEN B. BEYER.....1425 Williamson Building
JOSEPH J. KAAS.....6531 Lorain Ave.
JOSEPH LARONGE.....600 Union Trust Building
E. L. OSTENDORF.....1105 Chester Avenue
CARLTON SCHULTZ.....1223 Schofield Building
ALEXANDER S. TAYLOR....1930 Union Trust Bldg.
V. C. TAYLOR, II.....1930 Union Trust Bldg.

Springfield
HARRY S. KISSELL.....927 First Natl. Bank Bldg.

Toledo
HOWARD ETCHEN.....725 Adams Street

PENNSYLVANIA

Bethlehem
WILLIAM C. BADER.....Odd Fellows Bldg.

Harrisburg
EVAN J. MILLER.....213 Locust St.

Lancaster
HARRY W. BUTTS.....24 E. Orange Street

Lansdowne
W. RAYMOND EVANS.....19 N. Lansdowne Ave.

Philadelphia
PHILIP N. ARNOLD.....1324 Walnut St.
E. L. CARLSON, The Fidelity Mutual Life Ins. Co.
.....The Parkway at Fairmount Avenue
C. HARRIS COLEHOWER.....5942 Chestnut St.
SAMUEL C. KANE.....401 Land Title Building
MARTIN STOTZ.....516 Land Title Building

Pittsburgh
J. W. CREE, Jr.....211 Fourth Avenue

Wilkes-Barre
C. A. LEIGHTON.....702 Deposit & Sav'gs Bk. Bldg.

RHODE ISLAND

Providence
HAL FORRESTER COOMBS.....211 Waterman St.
JAMES DEVINE.....801 New Industrial Tr. Bldg.

TENNESSEE

Nashville
J. W. DENIS.....209 Warner Bldg.
J. W. GRAHAM.....411 Nichol Bldg.

UTAH

Salt Lake City
EDWARD M. ASHTON.....32 South Main Street

VIRGINIA

Richmond
J. GUTHRIE SMITH.....924 East Main Street

WEST VIRGINIA

Charleston
CHARLES UHRIG .....
.....Box 1019, Charleston Natl. Bank Bldg.

WISCONSIN

Madison
HENRY H. BUSH, Stanley C. Hanks Co.....
.....311 State Street

Milwaukee
K. LEE HYDER.....525 E. Michigan St.

CANADA

Hamilton, Ontario
CYRIL R. DeMARA.....405 Bank of Commerce Bldg.

London, Ontario
BERT WEIR.....156½ Dundas Street

Toronto, Ontario
FRANK McLAUGHLIN..... .....34 King Street, West